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IN THE

Supreme Court of the United States

October Term, 1944.

No. [redacted] 11

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*,
UNITED STATES OF AMERICA, *Intervenor*.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

PETITIONER'S REPLY BRIEF.

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On Writ of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

PETITIONER'S REPLY BRIEF.

REPLY ARGUMENT.

I.

THE FALLACY OF THE THEORY OF A NEW INDEPENDENT LICENSE.

The Government brief bottoms its argument on the Royalty Adjustment Act being a proper exercise of the right of eminent domain upon the cases of *Crozier* v. *Krupp*, 224 U. S. 290 and *Richmond Screw Anchor Company* v. *United States*, 275 U. S. 331. It states "The Royalty Adjustment Act in effect authorizes the taking of a new license under patented inventions" and "This Act is clearly as valid as its prototype, the 1910 Act as amended" (Br. p. 10).

A. The Taking of a New License is Not Supported by 1910 Act or the Cases Thereunder.

We have already discussed in our main brief (pp. 37, 53, 55-56, 65, 69-70) the vast difference between the Act of 1910, as amended, and Public Law 768. By its express terms it deals solely with Governmental use "*without license.*" Although *Crozier* v. *Krupp* held the Act of 1910 to be "the acquiring by the Government under the right of eminent domain, as the result of the statute of 1910, of a license to use the patented inventions in question," this Court in *William Cramp & Sons Ship & Engine Building Company* v. *International Curtis Marine Turbine Company, et al.*, 246 U. S. 28, specifically overruled the theory of an automatic appropriation by the United States of a license in the following language:

> "Thus it is true to say that under both views the theory of universal and automatic appropriation by the United States of a license to use all patent rights is unsupported, since both views assume that official authority would not be wilfully exerted so as to violate the Constitution, and this although it be that the Act of 1910 embraces the exceptional case where, because of some essential governmental exigency or public necessity, the authority of the United States is exerted to take patent rights under eminent domain in reliance upon the provision to recover the adequate compensation which the Act of 1910 affords. And this fundamental characteristic at once exposes the want of foundation for the contention that because the statute made provision for giving effect to acts of official power in taking patent rights under the conditions stated and even when necessary of curing defects in the exertion of such power, therefore it is to be assumed that the statute conferred upon all who contracted with the United States for the performance of work a right to disregard and take without compensation the property of patentees." 246 U. S. 28 at 42.

* * * * * * * * *

"A contractor with the United States, therefore, is in the very nature of things bound to discharge the obligation of his contract without violating the rights of others, and merely because he contracts with the United States is not vested with the power to take the property of others upon the assumption that as a result of the contract with the United States he enjoys the right to exercise public and governmental powers possessed by the United States.

"*Nor is there any foundation for the assumption that the ruling in Crozier* v. *Krupp*, 224 U. S. 290, *is in conflict with these self-evident propositions and by necessary implication sanctions the theory of universal license in favor of the United States as to all patent rights and the asserted resulting authority in contractors with the United States for the purpose of the execution of their contracts to disregard and appropriate all such rights.*" 246 U. S. 28 at 43. (Emphasis ours.)

Chief Justice White, who wrote the opinion in the *Cramp* v. *Curtis* case, pointed out in detail that the purpose of the Act of 1910 "was not to weaken rights of patentees but to further secure them" and that to claim a construction for the Act that *it would universally and automatically grant a license* would be *in direct conflict* with the provision of a statute "*avowedly intended for the further securing and protecting of such patent rights.*" (246 U. S. 28 at 37, 38.)

We do not lose sight of the fact that as a result of this Court's decision in the *Cramp* case the 1918 amendment to the Act of 1910 was adopted. We direct attention, however, to the fact that in the *Richmond Screw Anchor* case, *supra*, this Court, speaking by Chief Justice Taft, held:

"This Court held, March 4, 1918, in *Cramp & Sons* v. *International Curtis Marine Turbine Company*, 246 U. S. 28, 42, 45, that the Act of 1910 *did not effect a license to the United States* or the contractor, making the patented device, to make or use the invention, and that the contractor could be sued for an injunction and for infringement in spite of the operation of that Act." 275 U. S. 331 at 342. (Emphasis ours.)

Therefore the cases upon which the Government places such heavy reliance in its contention that Public Law 768 effects the taking of a new license by the Government do not support the contention, in view of the direct reference with approval by this Court in the *Richmond* case of its decision in the *Cramp* case and in view of the fact that the *Cramp* case overruled the license theory of *Crozier* v. *Krupp*.

B. Royalty Order W-3 Vitiates the New License Theory.

The argument that what the Government takes under the Royalty Adjustment Act is a new license is a most unsubstantial one. If the Government were taking a new license, independent of the consensual one the existence of the latter would have no bearing on the situation. But the fact is that the amount of money which the Government takes, and has ordered to be taken, from petitioner is not based upon any suppositious new license, but is the precise and exact amount provided for by the existing license contract between petitioner Alma and respondent Timken. Is it not the height of absurdity to urge that in the instant case the Government takes a new license when the Government's position is that petitioner's patent is invalid and that petitioner is not entitled to receive any royalty at all? How can this possibly be construed as the taking of a license? The Royalty Adjustment Order in this case holds that as far as the Government is concerned petitioner's patent is a nullity, not only from the date when the Royalty Adjustment Order was issued, but all the way back to September, 1939, when the patent was issued and under which all of the unpaid royalties, which the District Court held should have been paid, were accrued. If then the patent is a complete nullity insofar as the Government is concerned how can it be said that the Government takes for itself a new license under a patent which, in spite of the fact that the patent was issued by the Government, it now treats as a non-existent right and one that in fact never did exist?

C. The Very Language of the Act Demonstrates the Fallacy of the New License Theory.

The fallacy of the Government's argument concerning the taking of a new license independent of the consensual license held by the contractor is further amply demonstrated by the terminology employed throughout the entire Royalty Adjustment Act.

Section 1 of the Act provides:

> "* * * whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, *with license from the owner thereof* * * * and *such license* includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered *such* manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee.
>
> "Within a reasonable time * * * the head of the department * * * shall * * * fix and specify such rates or amounts of royalties * * * as he shall determine are fair and just * * * and shall authorize the payment thereof *by the licensee to the licensor* on account of such manufacture, use, sale, or disposition: * * *" (R. 56.)

The license specifically dealt with in the foregoing quoted portions of the Act is shown, by those parts we have italicized, to be not an independent license but a license between the owner of a patent and the contractor. The manufacture, use and sale referred to in the Act is expressly stated to be the license to manufacture, use and sell covered by the existing license between the owner and the contractor. All of the provisions in the Act for the payment of royalties relate to *such* licensed manufacture. They do not deal at all with royalties to be paid by the Government under a hypothetical new independent license but the royalties to be paid, in the express language of the Act, "by the licensee to the

licensor'' and these payments are furthermore expressly stated to be ''on account of such manufacture, use, sale, or other disposition''; in other words, the manufacture, use, sale or other disposition under the existing license agreement.

Section 1 of the Act also expressly forbids *the licensee* after the effective date of the notice *to pay to the licensor* a royalty in excess of that specified in an order to be issued. This prohibition by its terms therefore operates directly upon the consensual license agreement.

Section 1 of the Act also provides that

> ''* * * The licensor shall not have any remedy * * * against the licensee for the payment of any additional royalties remaining unpaid, or for damages or breach of contract or otherwise, but said licensor's sole and exclusive remedy except as to the recovery of royalties fixed in said order, shall be as provided in the Section 2 hereof.''

The Act therefore expressly recognizes and provides, that as to all royalties to be specified and to be paid in accordance with the Royalty Adjustment Order to be issued, the licensor's remedy is against the licensee under the consensual license and not under any alleged new or independent license which is taken or to be taken by the Government.

Section 2 of the Act specifically recognizes that the royalties to be paid to the licensor pursuant to any order issued under the Act are royalties ''under a license issued by him'' (the licensor). Obviously the license referred to in Section 2 of the Act is the consensual license, not any imaginary or hypothetical independent license.

The very title of the Act itself shows that it was never intended to cover or provide for the taking of an independent license as contended by the Government for it is expressly stated to be ''An Act To provide for adjusting royalties.'' The only royalties that could be *adjusted* are royalties already in existence, in other words, those set forth in the consensual license agreement.

D. The Very Terms of Order No. W-3 Belies the New License Theory.

If any more were needed it is to be found in the express provisions of Royalty Adjustment Order No. W-3 issued in this case. Numbered paragraph (1) of the Order provides for the payment of royalties

> "by licensor to licensee pursuant to the licenses specified in column 6 of said Schedule A".

The only license referred to in column 6 of Schedule A of the order is the consensual license agreement which is particularly identified as the one entered into on "May 16, 1938". This is the license between Alma and Timken and not any hypothetical license between Alma and the Government.

The same is likewise true with numbered paragraph (2) of the Order as it authorizes the

> "licensee * * * to pay to licensor * * * ."

Here again this is under the license between Alma and Timken and not any imaginary license between Alma and the Government.

Numbered paragraph (3) of the Order contains the following express direction:

> "(3) that licensee is hereby directed forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under the licenses referred to in paragraph 2 hereof * * * ".

The only license that the foregoing language can refer to is the consensual license between Alma and Timken and not any new imaginary license with the Government.

From the foregoing it is, we submit, abundantly clear that the Royalty Adjustment Act and Royalty Adjustment Order W-3 issued thereunder in the instant case relate entirely (1) to the existing consensual license and not to any

imaginary new or independent one, (2) that the Act is primarily directed to having the Government step directly into the shoes of the licensor under the existing private contract, and (3) that the only thing provided for by the Act which is to be taken by the Government is either a portion of the money due under the contract from the licensee to the licensor, or, as in the instant case, all of the money which petitioner is entitled to receive under its existing license contract not only for the future but also as to the greater amount that was due and owing to petitioner by Timken prior to the enactment of the Royalty Adjustment Act and to Order W-3 issued thereunder. The entire argument of the Government about an "independent" new license which is allegedly provided for by the Royalty Adjustment Act therefore falls by its own weight, because all of the major provisions of the Act depend, and are predicated, upon the existence of the consensual license.

II.

THE ROYALTY ADJUSTMENT ACT IS NOT A PROPER EXERCISE OF THE FEDERAL POWER OF EMINENT DOMAIN.

A. Money is Not a Species of Property that May be Taken Under Eminent Domain.

The Government's brief (p. 24) makes the statement that "eminent domain enables the United States to appropriate *any* private property for its use in its constitutional activities," citing *Kohl* v. *United States*, 91 U. S. 367 and *Albert Hanson Lumber Co., Limited* v. *United States*, 261 U. S. 581 in support thereof. Neither of these cases support such a bald, broad, general statement. Both of the cases cited had to do with the condemnation of land clearly intended for a public use, the Kohl case relating to the condemnation of land for use in constructing a postoffice in Cincinnati and the Hanson case to the condemnation of land to be used for the construction of a canal in the State

of Louisiana. Although we agree entirely with the Government's statement that patents are species of property, we are not concerned here with the taking of a patent, but with the taking of money due from one private person to another under a private contract.

The only "taking" the Act provides for is *the taking of money*. And there is no provision in the Act, nor the slightest intimation in the brief, that *the money* so taken is to be used for any public purpose. This infirmity of the Act is not, we submit, in the slightest degree, cured by the opening words of the Act that it is "to aid in the successful prosecution of the war".

The argument that the structures (Br. p. 30) to which the royalty applies are put to governmental or public use merely emphasizes rather than cures the infirmity. The action here does not involve the physical structures,—the *transfer cases*, but merely the money due petitioner by Timken as royalty for Timken's use of the patented invention, and as a result of which use Timken has made, and now retains money, earned by it as profits which it would not and could not have made, except by the use of the invention.

Nowhere in the Government brief do we find any answer to the contentions in our main brief that there is no proper precedent for the taking of mere money, nor the citation of any precedent to support the direct taking in this case of money by the Government under eminent domain.

B. The Act Does Not Provide for Just Compensation Within the Meaning of the Fifth Amendment.

Under the heading "Just Compensation", the Government brief (p. 26) charges we misconceive "the subject matter taken under the Act," and it states

> "Neither the pre-existing license nor the royalties due thereunder are taken; a new license is instead condemned and it is the monetary 'equivalent' of this new license which the Act authorizes * * * " (p. 28).

We have amply demonstrated the utter fallaciousness of this new license theory (*supra*, pp. 5-11). Our interpretation of the Act in this respect, which the brief characterizes as a misconception, agrees with that of the Court below which the brief calls a "slight error." (Footnote 23, p. 35) *Jacobs* v. *United States*, 290 U. S. 13, which the Government brief (p. 26) cites, supports petitioner's contention that "just compensation" within the meaning of the Fifth Amendment does not mean inadequate compensation, but entire compensation, and that it means the value of the property at the time the property is taken. The argument is made that if petitioner's entire compensation were paid to it, namely, the exact royalties stipulated in the license agreement, it would nullify the entire Act. We answer this by stating that if the rule of just compensation under the Fifth Amendment is to be interpreted as this Court in the long series of decisions extending for more than sixty years has interpreted it, the Act should be declared a nullity. (See Brief of Amici Curiae, pp. 10-23.)

We submit nothing could be more conclusive on this point than the 1910 Act as amended, *Crozier* v. *Krupp* and the *Richmond Screw Anchor case* all of which clearly and completely, as stated in the Government brief (p. 29),

> "recognized that a patent owner's right to 'reasonable and entire compensation' for Governmental use of his invention meets constitutional requirements."

Nothing short of "entire compensation", or a full and perfect equivalent, can suffice.

C. The Property is Not Taken for Public Use.

Under this heading, the Government brief (p. 30) again returns to *Crozier* v. *Krupp*, *supra*, and *Richmond Screw Anchor* v. *United States*, *supra*, and argues that because the *physical structures involved* in the license contract are used for public purposes the taking provided for by the Royalty Adjustment Act is, therefore, a taking for public use. It temporarily abandons and thereby tacitly admits

the weakness of its "new license" theory. The Government admittedly has not taken any of the physical structures, i.e., transfer cases, from petitioner. That which it has taken from petitioner and about which petitioner complains is the money rightfully due and already held by a judgment of a Federal Court to be due it by respondent Timken as well as the constitutional right denied to petitioner to a hearing on the merits of its appeal.*

III.

THE RETROACTIVE PROVISIONS OF THE ACT AS APPLIED IN THIS CASE RENDER THE ACT INVALID.

Although mere retroactivity alone is not sufficient to condemn a statute as unconstitutional, if the retroactivity affects vested property rights, the statute cannot be constitutional under the prohibition of the Fifth Amendment against the deprivation of property without due process of law.

Under the sub-heading "The act may apply to uses under a pre-existing license agreement" (p. 34), the Government's brief again premises the argument on the fiction of the appropriation of a new license. Although the proponents of the Act urged in hearings that the existing license was not the property that it was intended to take under the Act, nevertheless, the Act cannot be divorced entirely from the existing license as we have shown (*supra*, pp. 5-6). The Royalty Adjustment Act is not by any logical construction a mere "frustration of a pre-existing contract by condemnation of its subject matter" (Br. p. 36). The only thing that can be condemned or taken by the operation of the Act by its very terms is the money due under the existing license contract and no amount of pseudo dialetics can alter the plain unvarnished facts.

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* That there can be no public interest in the monies taken from petitioner because none of the royalties involved were charged to the United States and therefore there can not possibly be a taking for public use (see *infra*, pp. 27-32).

Omnia v. *United States*, 261 U. S. 502, upon which the Government brief so heavily relies (p. 36) is demonstrably not controlling in the present situation. That it is not controlling is clearly exemplified by the fact that in the *Omnia* case this Court definitely held that the claimant's contract was not expropriated. The facts in *Brooks-Scanlon Corp.* v. *United States*, 265 U. S. 106, are much more pertinent to those in the instant case than the facts in the *Omnia* case, as clearly pointed out by this Court in the Brooks-Scanlon case as follows:

> "Omnia Commercial Co. v. United States, 261 U. S. 502, 67 L. ed. 773, 43 Sup. Ct. Rep. 437, does not support the contention that claimant's contract was not expropriated. There, claimant had a contract giving it an opportunity to purchase a large quantity of steel plate from a steel company at a price under the market. If the contract had been carried out, large profits would have resulted. Before any deliveries were made, the United States requisitioned the steel company's entire production of steel plate. No specific steel plate had been appropriated to the contract, and no part of the purchase price had been paid. The action taken by the United States applied to the steel company only, and created no relations with the claimant. The contract was not kept alive nor resorted to in order to determine anything involved in the transaction between the United States and the steel company; the benefit of the low prices was not taken; no payments made on account of the purchase price were taken; nothing belonging to the Omnia Company was taken. Damages claimed were held too remote. The differences between that case and this are essential and obvious." *Brooks-Scanlon Corp.* v. *United States*, 265 U. S. 106 at 120, 121.

The Government's brief in the footnote 24 (p. 36) attempts to destroy the effect of the Brooks-Scanlon decision by referring to the fact that the Omnia case was recently cited with approval in *United States* v. *Powelson*, 319 U. S. 266, and in *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, and asserts that the citations of the *Omnia*

case in these cases should "dispel any notion that the *Omnia* decision had been weakened" by the *Brooks-Scanlon case.* The reliance placed upon the *Brooks-Scanlon case* by the *amici curiae* brief filed herein is not based upon the premise that the *Brooks-Scanlon case* weakens the *Omnia case,* but upon the sound contention that the facts in the *Brooks-Scanlon case* more closely parallel the facts in the instant case than do the facts in the *Omnia case.* As distinctly pointed out in this Court's above quoted discussion of the *Omnia case,* no specific steel plate had been appropriated by the Government to the contract in the *Omnia case* and "the action taken by the United States applied to the steel company only, and created no relations with the claimant". Here, the operation of Public Law 768 and Royalty Adjustment Order No. W-3 instead of creating "no relations between the United States and the claimant" as in the *Omnia case,* does exactly the same thing as was done in the *Brooks-Scanlon case;* the definite creation not only of direct relations between the Government and Alma, the claimant here, but the complete substitution of the Government for Alma as the recipient and beneficiary of every penny's worth of royalty past, present or future provided for by the consensual contract.*

It is argued under the heading "The Act may apply to uses occurring prior to its passage" (Br. p. 37) that "performance of the license contract was frustrated by the Government's appropriation of an independent license." We have shown that the theory of an appropriation of an independent license is entirely fallacious. It is not only equally fallacious to state that performance was frustrated by the Government's so-called appropriation of an independent license, but it is in direct conflict with the actual facts. How can it be said that performance was frustrated when there

* If anything more were needed to show the inapplicability of the doctrine of the *Omnia* case to the situation here it will be found at pages 8 to 10 of the Reply Brief of Amici Curiae which is hereby adopted by counsel for petitioner as supplemental to this brief.

was complete performance under the license by Timken and complete use of the patented invention from the date of its issuance in September, 1939 until September, 1942 in the manufacture of thousands of transfer cases (see Schenck affidavit (R. 105)), except for payment of the royalties due to Alma. Under the facts here it is idle to argue frustration of the contract.

The assertion (Br. p. 39) that "the patent grant is at the expense of the public domain" is definitely in conflict with the rulings of this Court in *James* v. *Campbell*, 104 U. S. 356, *Hollister* v. *Benedict & Burnham Mfg. Co.*, 113 U. S. 59, *United States* v. *American Bell Telephone Company*, 167 U. S. 224 and *United States* v. *Dubilier Condenser Corporation*, 289 U. S. 178. The argument made that contracts which deal with a subject matter which lies within the control of Congress have a congenital infirmity (Br. p. 39) and the cases cited in support of such argument have no force or effect in the instant case in the face of the holding of this Court in *United States* v. *Dubilier*, *supra*, that

> "the Constitution evinces no public policy which requires the holder of a patent to cede the use or benefit of the invention to the United States." 289 U. S. 179.

Even if it were true, as argued, that the license agreement between petitioner and respondent must necessarily be regarded as having been made subject to the possibility that at some future time Congress might so assert its whole constitutional power as to render that agreement unenforceable, this still would not import validity to Public Law 768, particularly when the law, as applied in the instant case, is urged by the Government to be perfectly valid in its retrospective aspects. The law cannot be constitutional under any pronouncement of this Court if it is to be applied retrospectively to injuriously affect vested rights under a contract and thereby take the money held to be due to one private individual for the unjust enrichment of another private individual. No one of the cases which the

Government cites under this heading were cases in which the Act under consideration was granted a retroactive effect to reach moneys which had already become due and payable over a period of years prior to the passage of the Act.

While it is true that in certain tax cases as, for example, *United States* v. *Hudson*, 299 U. S. 498, this Court has upheld a limited retroactivity, there was a very cogent reason as discussed in that case why a limited retroactivity (35 days) should be made applicable and that such retroactivity was not unreasonable or unwarranted.

The language employed at the very outset of the Act plainly implies, if not directs, a prospective operation only of the Act and not a retrospective application of it. The Act states:

> "That * * * whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States * * * ."

The word "shall" is a simple, common word which clearly denotes and expresses futurity and cannot, we submit, properly be construed as embracing past occurrences.

While it is true that Section 7 states that the Act is applicable to royalties earned, but unpaid, on the date of the notice, the only proper construction of this section is that it applies to royalties earned *subsequent to the passage of the Act* and *prior to the date of the notice* but remaining unpaid on the date of the notice. This Court has repeatedly ruled that a statute will not and may not be given a retrospective operation unless it is compelled to do so by language so clear and positive as to leave no room for doubt that it was the intention of the legislature to have the Act operate retrospectively. *United States* v. *Heth*, 3 Cranch 399, 413; *United States* v. *Union Pacific Railroad Co.*, 98 U. S. 569, 606; *Chew Heong* v. *United States*, 112 U. S. 536, 559; *Cook* v. *United States*, 138 U. S. 157, 180; *Cameron* v. *United States*, 231 U. S. 710, 720; *Shwab* v. *Doyle*, 258 U. S. 529, 534; *United States* v. *Magnolia Co.*, 276 U. S.

160, 162; *Miller* v. *United States*, 294 U. S. 435, 439 and *Hassett* v. *Welch*, 303 U. S. 303, 314.

Under the heading "Uses between the enactment of the Act and the issuance of a notice thereunder" the Government brief (p. 42) tacitly admits that until the issuance of an order the Act cannot and should not properly apply. It speaks of a so-called inchoate license and attempts again to draw a parallel between the Act of 1910 and Public Law 768. It states that:

> "Until the inchoate license was made operative through the issuance of a notice and order, however, Government contractors and subcontractors were permitted, for convenience, to proceed under their own license, and could continue to pay royalties thereunder." (Br. p. 43)

But this is not the situation here, as the payment of royalties which were due and payable to petitioner by respondent, long before the issuance of any notice and order, is entirely precluded by the order of the Third Circuit Court of Appeals which instructed the District Court to proceed no further in the instant case and by the refusal of the Circuit Court of Appeals to consider petitioner's case on its merits.

How can it properly be said that the right to sue in the Court of Claims is an adequate remedy for petitioner, who has already litigated, and obtained a judgment on, the matter of past due or accrued royalties? In face of these facts how can it properly be argued that the order of the Third Circuit Court of Appeals is not a deprivation of property without due process of law? (Government's Br. pp. 44-50)

That the relegation of petitioner to a suit in the Court of Claims against the United States with a new defense, not available to respondent Timken, "is no objection to the Act" is, we believe, fully answered by the decision of this Court in *Lynch* v. *United States*, 292 U. S. 571. The references to the hearings before

the House Committee on Patents; (Br. p. 45) and the quotation of part of the record therein (footnote 26, Br. p. 45 and footnote 27, Br. p. 46) merely emphasize the deadly parallel between the situation here and that in the *Lynch* case, namely, that Congress did not merely intend to affect the remedy but passed a law which went directly to the right. The references to petitioner's patent as a worthless one, (Br. pp. 47, 49) find no support in anything in the record except the self-serving declaration in respondents complaint in the district court (Footnote 28, p. 47) and the statement by the Presiding Officer of the Royalty Adjustment Board that the opinion of the Chief of Ordnance is that the patent is invalid. (R. 73)

IV.

THE PROCEDURE PURSUED IN THE INSTANT CASE WITH RESPECT TO NOTICE AND HEARING WAS CLEARLY VIOLATIVE OF THE CONSTITUTIONAL PROVISIONS FOR DUE PROCESS OF LAW.

The argument is made in the Government brief that our contentions in this respect are without merit because:

> "(1) due process of law does not require an administrative hearing in eminent domain proceedings; (2) the order was merely a preliminary administrative fixing of value, not binding upon the courts; and, in any event, (3) the procedure prescribed by the Act and followed in this case was reasonable and proper." (Br. p. 50-51)

A. Due Process of Law Clearly Requires a Proper Hearing Under Public Law 768.

We direct attention to our argument under the subject "Notice and Hearing" in our main brief (p. 49, 59). We believe we have fully demonstrated (*supra* pp. 11-14) that Public Law 768 is not a proper exercise of the federal right of eminent domain because it is not directed to the taking of any physical property nor is that which is to be taken,

namely,—mere money due—to be devoted to any public use. The cases which we cite in our main brief, (p. 54, 55) *Hagar* v. *Reclamation Dist. 108*, 111 U. S. 701 and *Powell* v. *Alabama*, 287 U. S. 45, definitely hold that notice and hearing are preliminary steps essential to the passing of an enforceable judgment. It cannot be argued here that Royalty Adjustment Order No. W-3 is not an enforceable judgment in view of the force and effect given to it by the Third Circuit Court of Appeals which not only closed the door of its Court in the face of petitioner but also directed the District Court to do likewise.

Public Law 768 provides for a hearing and, as held by this Court in *Morgan* v. *United States*, 304 U. S. 1:

> "* * * The right to a hearing embraces not only the right to present evidence but also a reasonable opportunity to know the claims of the opposing party and to meet them." 304 U. S. 1 at 18.

The record here shows that no opportunity, reasonable or otherwise, was ever presented petitioner to know or to find out what the claims of the opposing party, the Government, were concerning the alleged invalidity of petitioner's patent. It does not alter or help the situation any to refer to the report of the House Committee on Patents as quoted in the Government brief (p. 52). The record establishes that no reasonable opportunity was given petitioner or its counsel to discuss the matter, nor can the hearing by the wildest stretch of the imagination be designated as a conference. How can there be a conference on any matter if one of the parties is told there is to be no argument (R. 73) and no opportunity is given to know or examine the claims of the other party? How can any such Star Chamber Proceedings be properly termed an opportunity for amicable adjustment?

B. Royalty Adjustment Order No. W-3 in this Case is Manifestly Not Proper But Highly Improper.

The argument made concerning a "payment on account" (Br. p. 53) and "advance payment" (Br. p. 54) is, we submit, ludicrous in the present case where the order provides for the payment of nothing. Likewise the argument if the licensor, or petitioner here, thinks he is entitled to more than nothing, he can obtain a judicial determination *de novo*. The fallacy of this argument is that petitioner here had already obtained a judicial determination which the Government successfully urged upon the Third Circuit Court of Appeals should be held to be as completely nullified as if petitioner had never fully litigated its rights.

Colonel Vanderwerker's argument that he would hesitate to advise the Secretary of War to pay a royalty under a patent which he had reason to believe was invalid (Br. p. 55-56) does not in the slightest degree, we submit, support the constitutionality of the Act but instead strongly augurs a holding of its invalidity under the doctrine of the *Lynch* case. This Court has definitely ruled that the only authority competent to set a patent aside, or to annul it, or to correct it for any reason, is vested in the Courts of the United States. *McCormick Harvesting Machine Co.* v. *Aultman-Miller Co.*, 169 U. S. 606, 609.

Although it is urged that the holding of the Royalty Adjustment Board that petitioner's patent is invalid has no effect upon the patent's validity, such argument is purely specious. What has actually happened is that the Government has said in no unmistakable terms that so far as it is concerned the patent is invalid and that it shall continue so to hold until or unless petitioner proceeds to establish the validity of its patent by means of a new suit in the Court of Claims. An attack by the Government on its duly issued patent was most properly condemned by a statutory court in the District of Columbia in *United States* v. *U. S. Gypsum Co.*, 53 Fed. Supp. 889, as follows:

"* * * One of the first objectives and essentials of good government is order and certainty in relations between Government and citizen. This cannot be secured if the Government itself is not to be depended upon to abide its grants, even if they have been improvidently or erroneously made. The attack of the Government upon the patents under pargaraph 46 (a) is based upon the extraordinary premise that the Government can in one department issue a grant and in another question its own action, in the absence of charges of fraud in inducing the action. Common principles of justice and fairness in dealings between patent applicants and the Government gives patentees a right to assume that their patents are valid insofar as any attack on them by the Government which issued them is concerned, unless the attack is for fraud in the obtaining of the patents." 53 Fed. Supp. 899-900,

"* * * It is not within the proper function of courts to open the door by judicial innovation to Government attack on patents, retroactive in effect and without limitation in time, and thus to unsettle industrial security so far as it is based on the patent system." 53 Fed. Supp. 903,

"* * * So far as the right of the Government to attack the validity of the patents is concerned the Court rules definitely that it has no such right, and the Court no authority to pass on the same; that the patentees and those dealing with them had and have a right to assume the validity of the patents so far as any attack by the Government on its own grant is concerned." 53 Fed. Supp. 903.

The Government brief (p. 56) endeavors to contest our assertions that the Royalty Adjustment Order in this case permits the private enrichment of respondent Timken at petitioner's expense. The record here shows that large numbers of transfer cases were sold during the years 1939, 1940 and 1941, as well as in 1942 (R. 105). There is no intimation that Timken has not already been fully paid for large numbers of these transfer cases and that no royalty whatsoever was paid to Alma on most all of such cases. The Gallagher affidavit (R. 60) states none of such royalties

were charged to the Government. Petitioner's contention in this respect is stated in the Government brief (p. 56) to be

> "based upon the mistaken notion that respondent may decline to pay to petitioner royalties already collected from the United States * * *."

This is no mistaken notion insofar as petitioner is concerned, but it is based upon actual facts. Respondent has already declined and refused to pay such royalties to petitioner. Neither is it a mistaken notion that respondent may "retain those royalties against the Government" for the Government brief specifically states that respondent has not paid any moneys into the Treasury of the United States (footnote 22, p. 34). Moreover, respondent Timken is not required by Order W-3 to account to the Government for any royalties on materials for which Timken had already received payment prior to July 28, 1943, the effective date of the notice (Order, Par. 4, R. 95).

C. The Procedure Followed in this case Was Most Improper, Unreasonable, Arbitrary and Capricious.

The Government's brief (p. 58) quotes from the notice of hearing, which quotation substantiates, as we have heretofore pointed out, that the notice made reference only to the *belief* that the royalties being paid are "unreasonable and excessive." There is not the slightest intimation that the validity of the patent was to be questioned. An extract is made from the letter of petitioner's President requesting a hearing and the statement is made that "at that time petitioner's representatives recognized that the validity of the patent was directly related to the reasonableness of the royalties" (Br. p. 58-59). We most emphatically challenge the correctness of this statement.

Quotation is made from a portion of the proceedings and the answer of petitioner's counsel expressing agreement to Major Cockrell's remark that:

> "Any royalty is excessive if the patent is invalid"

is seized upon in support of the statement that

> "this leaves no doubt that the War Department did not surprise petitioner as to the nature and issues of the proceeding and that petitioner received all the privileges intended by the Act." (Br. p. 59.)

We also most emphatically deny the correctness of the assertion that petitioner was not surprised. Counsel's agreement to the statement of Major Cockrell was, of course, based upon the assumption of a proper holding of invalidity of any patent by the only duly constituted authority competent to pass upon such subject. Petitioner and its counsel could have been no more surprised than they would be if, when this case is called for hearing before this Court, the Presiding Justice would state that there was to be no argument in these proceedings because the opinion of the Chief of Ordnance is that petitioner's patent is invalid. If it be true "that petitioner received all the privileges intended by the Act," how can an Act which *intends*, let alone permits the Star Chamber Proceedings so clearly evidenced by the transcript thereof be constitutionally valid.

V.

THE ROYALTY ADJUSTMENT ACT AS A REGULATION UNDER THE FEDERAL WAR POWERS.

Although the Royalty Adjustment Act on its face indicates it to be a war measure, we maintain that there is a definite limitation on what Congress may do even under the war power. In *Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398, 426, a case upon which the Government strongly relies, this Court stated:

> "* * * But even the war power does not remove constitutional limitations safeguarding essential liberties."

The doctrine that the constitutional limitations apply equally in peace and in war was enunciated by this Court

in *Ex parte Milligan*, 4 Wall. 2, where the Court by Mr. Justice Davis said:

> "The Constitution of the United States is a law for rulers and people, equally in war and in peace, and covers with the shield of its protection all classes of men, at all times, and under all circumstances. No doctrine, involving more pernicious consequences, was ever invented by the wit of man than that any of its provisions can be suspended during any of the great exigencies of government. Such a doctrine leads directly to anarchy or despotism, but the theory of necessity on which it is based is false;"

It has since been reiterated in the following cases:

United States v. *Russell*, 13 Wall. 623, at pp. 627-628;
United States v. *Lee*, 106 U. S. 196 at p. 218;
Hamilton v. *Kentucky Distilleries Co.*, 251 U. S. 146 at p. 155;
United States v. *Cohen Grocery Co.*, 255 U. S. 81, at pp. 88-89;
United States v. *New River Collieries Co.*, 262 U. S. 341 at p. 343;
Highland v. *Russell Car, etc., Co.*, 279 U. S. 253 at pp. 261-262;
concurring opinion of Mr. Justice Murphy in *Hirabayashi* v. *United States*, 320 U. S. 81, at p. 110.

Stewart v. *Kahn*, 11 Wall. 493, from which the Government brief (p. 60) quotes, has no real pertinence to the situation in the present case as that had solely to do with an act of Congress passed in 1864, the effect of which was to set aside the running of the statute of limitations on actions between citizens of the loyal states of the Union against citizens of the states in rebellion. The statute there involved was clearly a remedial one and it was held valid because

> "* * * It promotes justice and honesty, and has nothing penal or in the nature of confiscation in its character. It would be a strange result if those in rebellion, by

protracting the conflict, could thus rid themselves of their debts, and Congress, which had the power to wage war and suppress the insurrection, had no power to remedy such an evil, which is one of its consequences." (11 Wall. 507.)

Here the statute is directly in the nature of confiscation, if not of a penal nature. To paraphrase the above quoted language, it would, indeed, be a strange result if the Royalty Adjustment Act may be used as a means by respondent Timken to rid itself of its debt to Alma.

Hamilton v. *Kentucky Distilleries & W. Co.*, 251 U. S. 146, did not involve any taking, but merely a restriction upon the disposition of liquor on the war time prohibition law of World War I. The case has no pertinence to the situation in the instant case.

A. The Royalty Adjustment Act is Not Valid as a Price-Fixing Measure.

Most of the cases upon which the Government relies in support of the Royalty Adjustment Act are definitely ones which deal with price-fixing. Such price-fixing acts have in the main been held to be valid. However, they have no pertinence to the situation in the instant case, for here there has been no price-fixing, but a denial of the right to receive any money at all. We admit, for the sake of the argument, that if Congress had chosen to pass a price-fixing law, for example, that no royalty in excess of a definite figure, say 5 per cent, should be paid under any patent royalty contract, after the effective date of the Act, such legislation might have been perfectly valid. Congress, however, did not see fit to pass any such law but one which but sequesters the money due under a private contract.

As *Yakus* v. *United States case*, 321 U. S. 414 and *Bowles* v. *Willingham*, 321 U. S. 503 upon which the Government so strongly rely deal merely with price-fixing regulations they are clearly distinguishable from the present case. Indeed, in the *Willingham case* the very quotation, contained

in the Government brief (p. 62), is preceded by this statement of the Court:

> "We are not dealing here with a situation that involves a 'taking' of property." *Bowles* v. *Willingham* (321 U. S. 503 at 517).

As we have pointed out, there is a vast difference between price regulation acts, and the Royalty Adjustment Act, the sole purpose of which is to permit the Government to step in between the private contracting parties and to issue an order under the Act, such as Royalty Adjustment Order No. W-3, which directs the licensee Timken to pay no further money at all to petitioner, but instead to pay the money due under the contract to the Government. The Order goes even further in that it does not require Timken to pay over to the Government, by way of reduction of its contract, any of the royalties that may have accrued on transfer cases delivered by Timken to the Government and for which Timken had already received payment by the Government. None of the cases cited in the Government's brief (p. 64-65) deal with a situation such as here presented. Indeed there is no really pertinent case which the Government could cite for the plain reason that the only case which deals with a parallel situation is the *Brooks-Scanlon case*. *Calhoun* v. *Massie*, 253 U. S. 170, *Norman* v. *B. & O. R. Co.*, 294 U. S. 240, *Philadelphia B. & W. R. R.* v. *Schubert*, 224 U. S. 603, deal with situations entirely different from that here presented, as is clearly exemplified by the digest of these cases contained in the Government brief (p. 67-70). There is no question here of any "prophetic discernment" of individuals such as referred to in the *Philadelphia* v. *Schubert case*. Nor is there anything in the contract between Timken and Alma which would prevent the Congress from exercising its right to pass proper regulatory measures under its patent powers as long as the enactment is in furtherance of the constitutional power to secure to inventors the rights of their discoveries. Neither is there anything

in the contract that would prevent Congress from adopting proper regulatory measures in furtherance of its war powers. The present Act does neither, but, as we have pointed out, has no other purpose than that of substituting the Government for licensors under prior private patent license contracts, so that the Government may take part or, as in the present case, *all* the past due and future royalties. In the present case, because of the retroactive application given to Royalty Adjustment Order No. W-3, it, in effect, has been used to render nugatory a prior judgment of a Federal Court.

B. The Act Does Not Satisfy the Due Process Requirements of the Constitution.

The Government brief (p. 71-74) argues that the Royalty Adjustment Act is valid because it satisfies due process requirements applicable to price-fixing legislation, but as we have pointed out, the Act is not price-fixing legislation, but a direct taking of money under the guise of eminent domain. Indeed, it is as an exercise of the right of eminent domain that the Government in its brief finds its main justification for the Act. (Brief p. 14-59).

Even though the Act should be considered as a price-fixing regulation, the manner in which it has been applied in the instant case clearly shows Royalty Adjustment Order No. W-3 to be arbitrary and capricious based as it is upon a mere "opinion of the Chief of Ordnance" with no evidence of record to support such opinion and with no opportunity having been given at any time to petitioner to examine or meet such evidence or, indeed, to offer any argument on the subject.*

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* The arbitrary and capricious nature of the action permitted by the Act is even more clearly exemplified by the Royalty Adjustment Orders in the case of *Coffman* v. *Breeze*, 65 S. Ct. 298, wherein the orders arbitrarily and without any rational basis fixed a maximum return to Coffman of $50,000 per year.

VI.

THE ROYALTY ADJUSTMENT ACT WAS NOT PROPERLY APPLIED IN THIS CASE.

The argument is made that as long as some royalties involved in petitioner's appeal of the Third Circuit Court of Appeals were charged or chargeable to the Government, there is plainly *some* application of the Act and Order W-3 to the subject matter of the appeal below (p. 75-76). It is stated (p. 76) that the "disposition of the matter by the court below would prevent any prejudice to petitioner whether or not all the royalties in suit were charged or chargeable to the United States." How can it possibly be said that the order of the Court of Appeals in this case prevents any prejudice to petitioner when the Court definitely instructed the District Court to proceed no further in the action, after the District Court had already adjudged that royalties were due and should have been paid to petitioner. All of the transfer cases effected by paragraph 4 of the judgment had been sold by Timken prior to the passage of the Act and long prior to the issuance of Order W-3. If there were *only one* of each of the various types of such cases as to which the royalties had neither been charged nor are chargeable to the Government, petitioner clearly is entitled to an adjudication as to such cases.

Although the Statement in the Government brief is in the main a fair presentation of the case, we would be decidedly remiss if we did not call attention to two glaring examples contained therein of partial quotations from the record wrenched from their context and inserted into new sentences in such a way as to constitute an entirely erroneous recital of subject matter, presented in such a way, as to make such subject matter appear an accurate recital of factual statements.

For example, there is a very significant omission in the following text beginning in line 4 of page 7 of the brief:

> "On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93-96). That Or-

> der recited that royalties payable by respondent to petitioner under the license agreement are 'directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States' of the alleged invention covered by the patent; * * *."

The categorical statement made in the sentence beginning "That Order" taken together with the matter quoted therein, makes it appear as if Royalty Adjustment Order No. W-3 contained a specific finding that the royalties payable by respondent to petitioner under the license agreement had been or were "directly or indirectly charged or chargeable to the War Department."

It will be seen by referring to the Order that the quoted language begins in the third line from the bottom of record page 93 and that when the preceding text is read in conjunction with the wrenched quotation, the Order does not form the slightest justification for the categorical statement contained in the Government brief. The omission of the words *"and which said royalties"* that appear in the Order immediately before the verb "are" with which the Government brief begins its quotation, results in a flagrant distortion.

A similar omission occurs with respect to the following:

> "* * * and to reduce the contract price of articles to the War Department or its contractors or subcontractors 'to the extent necessary to give the War Department the full benefit of the (ordered) reduction in royalty rates' (R. 95)." (Br. pp. 7-8.)

The above quoted language is taken from Paragraph 4 of the Order (R. 95), but it omits the following very significant part of this paragraph contained in lines 6 and 7 thereof (R. 95):

> "* * * *but for which licensee has not on the date of this Order received payment* * * *"

The above omissions result in distortions too significant to be anything but studied perversions and not mere inad-

vertent errors of omission. They go directly to a very vital part of petitioner's case, namely whether Royalty Adjustment Order No. W-3 is properly applicable to *any* of the *accrued* royalties involved in the present case as discussed more fully in our main Brief for Petitioner (pp. 77 to 83). They are also significant as bringing into bold relief the fatal errors of omission both in the Royalty Adjustment Act and by those who administered it in the issuance of Order W-3. Although Section 7 of the Act specifically provides it shall apply to all royalties charged to the United States it makes no provision for any investigation or determination by anyone of this all important question. Nothing could prove more conclusively that those who issued the Order made no such investigation than the fact that Mr. David L. Kreeger who appears of counsel on the Government's brief was impelled to make a belated last minute effort in October, 1944, to ascertain these most pertinent facts and to insert in the Government brief as Appendix C(1), a self-serving letter written by respondent Timken for the purpose of the present controversy*

This letter however corroborates with striking emphasis the correctness of our contentions (Brief for Petitioner pp. 77 to 83) that none of the royalties involved here were ever charged to the Government because Timken's counsel advised Timken not to pay any of such royalties to Alma, *ergo* if it did not pay them it did not charge them. Therefore there can be no public interest in such royalties but a complete and full assumption by Timken of the liability to pay such royalties.

Yet in spite of all the above the Government urges *inter alia* the validity of the obviously improvidently issued Order

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* Certainly counsel must have been fully cognizant of the rule of evidence that letters written for the purpose of the present controversy are clearly inadmissible in the first place and, secondly, that matters not of record cannot and will not be taken into consideration by this Court. See *Schley* v. *Pullman Car Co.*, 120 U. S. 575, at p. 578; and *cf. Mitchell* v. *United States*, 9 Pet. 711, at p. 731; *Pacific R. R. of Missouri* v. *Ketchum*, 95 U. S. 1, at p. 3; *South Carolina* v. *Wesley*, 155 U. S. 542, at p. 544.

No. W-3; the constitutionality of the Act which it claims justified and provided for its issuance; that the procedure provided for by the Act and followed here is reasonable and proper; that the money taken from Alma is taken for public use; that the Order W-3 can properly be used to oust the jurisdiction of a Federal Court of Appeals and render nugatory a prior judgment of a Federal District Court; that all of the above constitutes due process of law and that it is an adequate remedy for petitioner to litigate *de novo* in the Court of Claims its already judicially established right to recover past due monies in which there is and can be no public interest.

A. The Chargeability of the Royalties in Suit to the United States.

The vulnerability of Royalty Adjustment Act in failing to provide for the proper introduction of evidence or findings and the slipshod administrative procedure permitted under it is glaringly illustrated by the last minute attempt by the Department of Justice to ascertain that which logically and legally should and could have been determined in the very first place, even before any royalty adjustment notice was issued. The discussion in the Government brief (p. 77-87) even taken with its reliance upon the clearly inadmissible and improper material *dehors* the record still falls far short of proving that any of the past due royalties were charged to the United States but clearly indicate the contrary.*

* We find it extremely difficult to refrain from characterizing the action of counsel for the Government in attempting to rely upon matters *dehors* the record. Surely the clearly inadmissible letters written for the purpose of the controversy have no probative value. Likewise the paper [Appendix C(3), Govt. Br. p. 102-105], dated December 12, 1942, which is only reproduced in part. We submit that Public Law 768 is capable of application in compliance with due process of law. The Act specifically provides for a notice; likewise for a hearing. The communication dated December 12, 1942, shows that the Office of the Chief of Ordnance was

The quotations in the Government's brief (p. 81) from the transcript of proceedings before the Royalty Adjustment Board bring forth into bold relief the nature of the tactics that have been employed throughout the entire proceedings which led to the issuance of Royalty Adjustment Order No. W-3. The sworn statements in the Gallagher affidavit are that no royalties had been charged to the Government on any of the transfer cases involved in the present litigation. Gallagher's affidavit is corroborated in this respect by the inadmissible Timken letter (Appendix C(1), Govt. Br. p. 100), yet the unsupported statement of Mr. Strauch that "the royalties were charged" is accepted in the Government's brief as controlling. Naturally, as far as Timken is concerned, it wishes to create the impression if it may do so by the unsupported statements of counsel and in weasel worded letters written for the purpose of the controversy (Ex. C(1)), that all of the royalties involved in this suit were charged or are chargeable to the Government because if it can succeed in doing so, it may retain a large portion of such royalties in spite of the judgment of the District Court that the royalties were due and should have been paid by Timken to petitioner. These tactics bring out into bold relief the inadequacy of the Act to provide for a proper investigation and fact finding by the Administrative Board of the existence of the requisite condition precedent in the absence of which the Act can have no application—viz., that the royalties were charged or *are* chargeable to

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in possession of information of which it obviously could have given advance notice to petitioner prior to the hearing. We can perceive no cogent reason why a full copy of the communication of December 12, 1942, should not have been furnished to petitioner in advance of the hearing, unless it was definitely decided to place petitioner at the greatest possible disadvantage at such hearing. That this was the case is inescapable in view of what transpired at the hearing. Had petitioner or its counsel been apprised prior to the hearing of the subject matter contained in Paragraphs 7 and 8 of such communication, petitioner would have been in a position to meet the challenge to the patent's validity.

the United States. No probative or admissible affirmative *evidence* appears of record but the contrary abundantly appears.

B. The Disposition of the Case by the Court Below Was Improper and Demonstrates the Invalidity of the Act as Applied in the Instant Case.

The Government's brief argues that our contentions with respect to the ouster of the jurisdiction of the Court below are wholly without merit.

1. The court below erred in directing paragraph 5 of the District Court's judgment be vacated.

The action of the Court of Appeals in failing to hear petitioner's appeal on the merits as to Paragraph 5 of the District Court's judgment was clearly erroneous, likewise the Order to the District Court to vacate such paragraph from the judgment. If there were only one of the T-79 transfer cases to which the appeal was solely directed and, in first place, may have been sold for non-governmental use by Timken or on which royalties were not charged or chargeable by Timken to the Government, petitioner was entitled to an adjudication on the merits with respect to it. The same is also true *in any event* as to all of the transfer cases involved in the suit because the Act cannot constitutionally, we submit, be construed to operate retroactively to royalties which had become accrued and were payable prior to the passage of the Act and prior to the issuance of the notice and order under the Act.

The cases of *Watts and Co.* v. *Unione Austriaca di Navigazione*, 248 U. S. 9, and *Crozier* v. *Krupp, supra*, cited in the Government's brief, do not rule the situation here presented, as in neither of these cases was there a prior judgment in behalf of a claimant for money due, based upon transactions which had been completed (except for the payment of the money) prior to the passage of the Act in ques-

tion. Although in the Watts case this Court remanded the case to the District Court with directions that no action should be taken thereon until the restoration of peace between the United States and Austria-Hungary, it remanded the case to the District Court *"for further proceedings"* (248 U. S. 22). Here the order of the Appellate Court directed the District Court *to take no further proceedings.*

In *Crozier* v. *Krupp,* the Supreme Court of the District Court of Columbia had dismissed the bill, while the Court of Appeals had reversed and remanded. This Court, however, properly ruled in that case that in view of a stipulation whereby

> "* * * Every conceivable claim based on the prior use of infringing devices was withdrawn. * * * As a result, the case was confined solely to obtaining at the end of the suit a permanent injunction." (224 U. S. 308.)

such an injunction could not have been made to operate until the United States had appropriated the right to use the invention, and hence if granted, it could have no operative force in view of the provisions of the Act of 1910. Any resemblance between the situation in the *Watts* and *Crozier* cases and the situation in the instant case is purely superficial.

The Government brief appears to take it for granted that this Court will order a remand of this case for a determination of the questions concerning the royalties charged or chargeable to the United States and that the Court of Appeals shall proceed with the determination of the merits of petitioner's appeal, with the final result that judgment will be entered directing respondent Timken to pay such royalties as do not properly come within the purview of the Royalty Adjustment Act or Order W-3 issued thereunder. Aside from the larger question of the constitutionality of the Act, such disposition of the instant case is the determination of it which petitioner seeks.

2. The court below erred in directing that no further proceedings be had as to paragraph 4 of the District Court's judgment.

The Government brief (p. 90) asserts our contention, that the Act and Order had the force and effect of vitiating and rendering nugatory the judgment of the District Court, is baseless. We fail to see the force of this assertion. The language of the District Court's order is —

> "* * * the cause is remanded to the District Court with directions to proceed no further therein * * *" (R. 120).

The clear language is a direction to the District Court to proceed no further in the *cause* and not with respect merely to Paragraph 5 of the judgment. We do not see how it is possible to twist the order of the Court of Appeals into a ruling intended to affect only Paragraph 5 of the judgment and to have no effect insofar as Paragraph 4 thereof is concerned. Nor can we see how the explicit direction, as contained in the Court of Appeals' order, could be interpreted by the District Court to mean that it was free to use its discretion if it saw fit to do so to proceed to carry into effect the provisions of Paragraph 4 of its judgment, in the face of the positive instruction by its Appellate Court that it *proceed no further* in the *cause*.

The suggestion in the Government's brief (p. 92) that if commercial production of the transfer cases in question should be resumed after the war, such production could be the subject matter of a new complaint and that, therefore, there cannot be any valid objection to the District Court, dismissing the complaint for mootness, is, to say the least, unique, for it disregards entirely the fact that the judgment of the District Court, as to the transfer cases which it held to be covered by the patent and the District Court's proper ruling that respondent Timken is estopped to question the validity of the patent, would be res judicata in any new complaint, whereas a dismissal of the action would leave the matters, which petitioner has already litigated, entirely undecided.

CONCLUSION.

We respectfully repeat the prayers for relief, as contained in the conclusion to our main brief.

Respectfully submitted,

I. JOSEPH FARLEY,
Counsel for Petitioner.

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Supplemental Brief for the Petitioner

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company, *Petitioner*, v. The Timken-Detroit Axle Company, *Respondent*, United States of America, *Intervenor*.	No. 11.

PETITIONER'S SUPPLEMENTAL BRIEF

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company, *Petitioner,* v. The Timken-Detroit Axle Company, *Respondent,* United States of America, *Intervenor.*	No. 11.

PETITIONER'S SUPPLEMENTAL BRIEF

STATEMENT

On May 21, 1945 this court entered the following order:

"This case is ordered restored to the docket for reargument. Counsel are requested to give special consideration in their briefs and argument to the following questions:

"1. Whether the Royalty Adjustment Act, 56 Stat. 1013, is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-

Detroit Axle Company, to petitioner for the patented devices manufactured, sold and delivered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order.

"2. Whether Sec. 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, Timken-Detroit Axle Company."

Petitioner hereby includes by reference the Statement of The Case as contained on pages 3 to 16, inclusive, in our "Brief for Petitioner" heretofore filed. Likewise the subject matter as contained in pages 1 and 2 of said brief under the headings "Opinions Below" and "Jurisdiction." We wish to emphasize that although our argument in this brief is directed to answering the court's questions above-enumerated it is in addition and supplemental to our previous briefs filed herein and to the argument heretofore had in this case No. 806 of the October 1944 term.

ARGUMENT

1 (a) Royalty Adustment Act, 56 Stat. 1013, is unconstitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold and delivered to the Government before the enactment of the Act.

Question 1-a of the court obviously refers to that part of the Fifth Amendment reading as follows:

> "No person shall * * * be deprived of life, liberty, or property without due process of law; * * *."

The pertinent words here are "deprived," "property" and "due process of law."

The Act as applied in this case deprives Alma of money—the debt owed to it by Timken as accrued royalties.

Does the Act as applied in this case deprive Alma of anything, and if so, is it "property" within the meaning of the Fifth Amendment? The property of which the Act, as applied in this case, seeks to deprive Alma by direct legislation is money—the debt owed to Alma by Timken. The court's question answers the above query by the tacit admission, quite correctly contained therein, that the Act as applied deprived Alma of *royalties* due from respondent Timken-Detroit Axle Company to petitioner.

When the Royalty Adjustment Act was enacted on October 31, 1942, Timken owed Alma accrued royalties for all of the T-32 series of transfer cases manufactured and sold by Timken during the years 1939, 1940, 1941 and to October 31st, 1942 (see Schenck affidavit, R. 105). As to these devices, the District Court by its final judgment held they were ones on which Timken should have paid to Alma royalties in accordance with the license agreement (R. 91-92).

Therefore, when the Act was passed, as to all the patented devices theretofore manufactured under the license and sold to the Government, the license contract entered into in May 1938 (R. 88-90) between Alma and Timken was already completely executed except for the payment of the money due as royalty to Alma by Timken.

This court has recognized that a patent license is nothing more than a waiver of the monopoly of the patent as to the licensee, a contract not to sue him, or his customers, for patent infringement.

> *De Forest Radio Telephone & Telegraph Co. v. United States*, 273 U. S. 236, 241-242;
> *General Talking Pictures Corp. v. Western Electric Co.*, 304 U. S. 175, 181.

In the manufacture of goods for the Government or for anyone else by Timken or any other licensee under a license contract, the license contract concerns only the licensee and the licensor, not the Government or other buyer.

That the existence of a patent in a case such as the present does not touch or concern the Government's ownership or use of the licensed patented articles manufactured

and sold to it by Timken, was unequivocally established by the axiomatic statements of *Adams v. Burks*, 17 Wall 453, by Miller, J., at p. 456:

> "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.
>
> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

The devices sold to the Government before the passage of the Act were owned by it free and clear of the monopoly of the patent, and subject to no control or claim of the patentee. The rule of *Adams v. Burks* shows that this situation must be considered as though no patent were here involved. It is a rule which has been consistently applied, both before the time of that decision and down to recent years.

Bloomer v. McQuewan, 14 How. 539, 549-550;
Chaffee v. Boston Belting Co., 22 How. 217, 223;
Bloomer v. Millinger, 1 Wall, 340, 351-352;
Mitchell v. Hawley, 16 Wall, 544, 548;
Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U. S. 425, 432;
Keeler v. Standard Folding Bed Co., 157 U. S. 659, 666;
Bauer & Cie. v. O'Donnell, 229 U. S. 1, 17-18;

United States v. General Electric Co., 272 U. S. 476, 489;
Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 457;
United States v. Univis Lens Co., 316 U. S. 241, 250;
United States v. Masonite Corp., 316 U. S. 265, 277-278.

When the parties Alma and Timken entered into the license agreement on May 16, 1938 (R. 88-90), Timken being "desirous of manufacturing and selling 'Transfer Cases' embodying the said improvements disclosed in" the Ruggles and Smith patent "application Serial No. 7751" (R. 89) paid Alma Fifteen Hundred Dollars ($1500.00) and further agreed *inter alia* to pay a royalty of "Fifty Cents ($0.50) on each 'Transfer Case'" made by Timken "embodying said improvements." It is self-evident that the contractual obligation to pay the nominal royalty rate of 50c per transfer case (½ of 1%) was assumed by Timken for the right to *make* and *sell* the patented articles and thereby to reap a profit on each transfer case sold. Every time Timken manufactured and sold a transfer case it obtained a benefit, the right to retain the profit from such sale and Alma parted with the right to restrict the use of the transfer case sold by Timken. Hence as there was included in such sale Alma's waiver of its monopoly under the license contract, Timken became fully obligated to pay the agreed but purely nominal royalty to Alma.

Counsel for the Government apparently realizing fully that the Act could be valid only as an exercise of the Government's power of eminent domain and being fully cognizant of the limitations upon such power, or at least being unable to find any precedent to justify the exercise of such power to seize, not physical property, but money

owed (as past due royalty) on the contract, concocted the fanciful, if not fantastic, theory that the "taking" authorized by the Act was that of "a new license" to cover the Governmental *uses* that had occurred prior to the Act's passage, that such new license was independent of the consensual contract between Alma and Timken, performance of which contract was "frustrated" by the Government's appropriation of the independent license to cover the Government's "*uses*" of the invention prior to the Act (G. Br. p. 37 to 41).

The "new license" theory, however, conveniently neglects to take into consideration the irrefutable fact that the Government at the time of the passage of the Act, under the rule of *Adams v. Burks* and the cases cited, supra, p. 5, 6, owned the patented articles free and clear of any claim of Alma. It was no concern of the Government's that these articles had been manufactured under a patent license. The licensors had no rights or duties in relation to the Government, nor had the Government any relation to the licensors. As between licensors and licensees the only subsisting obligation was the debt Timken owed Alma as to accrued royalties. It is this accrued money which the Government seeks to take (without just compensation, as we shall show) for its own benefit.

The Government, apparently not satisfied with the fanciful and fantastic new license theory, advanced a still further theory to support the constitutionality of the Royalty Adjustment Act. This second theory is that the Act is a valid price-fixing regulation. In Petitioner's reply brief (pp. 22-26) we showed that the Royalty Adjustment Act is not a price-fixing regulation. The fact is that the Act by its very language shows that it is a *taking* of money from patent licensors and is in no sense a price-fixing regulation. The Act does not adjust royalties generally,

but attempts to take the right to royalties, for, under this Act, whenever a reduction in royalties is effected it "shall inure to the benefit of the Government by way of a corresponding reduction in the contract price" (Sec. 4) and further that the orders which are issued under the Act direct that the amount of the reduction shall be paid over to the Treasurer of the United States (R. 95).

That the effect of the Act, whatever sound or unsound theory may be applied to it, is to take, to condemn, a contract right to accrued royalties, was freely admitted in the opinion of the court below, which held:

> "What we have here is a taking of private property for public use. The property involved is the patent owner's *royalty rights under the license with the manufacturer*" (R. 116-117). (Italics ours)*.

Alma's right under its contract to collect its debt from Timken is a property right.

Is this accrued money, the debt owed Alma by Timken, property within the meaning of the Fifth Amendment?

> "The constitutional provision is addressed to every sort of interest the citizen may possess," *United States v. General Motors Corp.*, 65 S. Ct. 357 at 359.

It is well settled that rights which have been acquired under a valid contract are property rights within the meaning of the Fifth Amendment.

> "Valid contracts are property, whether the obligor be a private individual, municipality, a state, or the United States." *Lynch v. United States*, 292 U. S. 571 at 579.

* Italics ours in this and other quotations unless otherwise noted.

As we have stated, every time that Timken manufactured and sold a transfer case covered by any of the claims of the Ruggles and Smith patent, Timken owed Alma 50c in money—the royalty provided for by the license contract on such transfer case. The amount of the royalty then became a debt and Alma had a vested right to recover such debt.

That Alma had the right to the payment of such money and that such right was property cannot be gainsaid in the light of an overwhelming line of decisions of this court, *Superior Water, Light & Power Co. v. City of Superior*, 263 U. S. 125 and cases cited therein at p. 135.

When, as here, Timken refused to pay Alma the royalties due under the contract, the latter had a right of action to recover the damages it suffered because of Timken's failure to pay.

> "A right to recover damages for an injury is property * * *." *Angle v. Chicago, St. Paul, Minneapolis & Omaha Railway Co.*, 151 U. S. 1 at 19; 38 L. ed. 55 at 65.

As the Act as applied in this case is clearly retrospective, it is unconstitutional as a "taking" without due process of law.

Question 1-a propounded by the court seems clearly to indicate that the court is fully cognizant of the long line of its cases holding that although retroactivity alone is not sufficient to condemn a statute as unconstitutional, it has uniformly held, in accordance with the immutable principles of justice which inhere in the very idea of free government that retroactivity *directly* divesting vested

property rights, acting directly to that end and not as an incident of some broader general policy, cannot be constitutional under the prohibition of the Fifth Amendment against the deprivation of property without due process of law. On whatever theory the Government may attempt to sustain the retroactive application of the Act, the cases discussed and cited below indicate such retroactive application is invalid.

One of the leading cases, the facts of which are strikingly analogous to the instant case is *Osborn v. Nicholson*, 20 L. ed. 689; 13 Wall, 654, wherein the plaintiff brought suit February 10, 1869, declaring upon a promissory note made to him by the defendants for $1300 dated March 26, 1861 and payable on December 26, 1861. The defendant pleaded that the instrument sued upon was given in consideration of the conveyance of a negro slave for life and that the negro soon thereafter, on January 1, 1862, was liberated by the United States Government. The court in holding that the defendant could recover upon the note, said:

> "But without considering at length the several assumptions of the proposition, it is a sufficient answer to say that when the 13th Amendment to the Constitution of the United States was adoped the rights of the plaintiff in this action had become legally and completely vested. Rights acquired by a deed, will or contract of marriage, or other contract executed according to statutes subsequently repealed, subsist afterwards, as they were before, in all respects as if the statutes were still in full force. This is a principle of universal jurisprudence. It is necessary to the repose and welfare of all communities. A different rule would shake the social fabric to its foundations and let in a flood tide of intolerable evils. It would be contrary to 'the general principles of law and reason,' and to one of the most vital ends of government.

Calder v. Bull, 3 Dall 388. The doctrines of the repeal of statutes and the destruction of vested rights by implication, are alike unfavored in the law. Neither is to be admitted unless the implication is so clear as to be equivalent to an explicit declaration. Every doubt should be resolved against a construction so fraught with mischiefs. There is nothing in the language of the Amendment which in the slightest degree warrants the inference that those who framed or those who adopted it intended that such should be its effect. It is wholly silent upon the subject. The proposition, if carried out in this case, would, in effect, take away one man's property and give it to another. And the deprivation would be 'without due process of law.' This is forbidden by the fundamental principles of the social compact, and is beyond the sphere of the legislative authority both of the States and the Nation."

Pacific Mail Steamship Co. v. Joliffe, 2 Wall, 450, was a case wherein a pilot suing under a California statute, which allowed him to collect one-half pilotage fees when his services were refused, was met by the defense that, the act having been repealed, he could not maintain his action. On this point the court by Mr. Justice Field, stated at pages 457-458:

"The claim of the plaintiff below for half-pilotage fees, resting upon a transaction regarded by the law as a *quasi* contract, there is no just ground for the position that it fell with the repeal of the statute under which the transaction was had. *When a right has arisen upon a contract, or a transaction in the nature of a contract authorized by statute, and has been so far perfected that nothing remains to be done by the party asserting it, the repeal of the statute does not affect it, or an action for its enforcement.* It has become a vested right which stands independent of the statute. And such is the position of the claim of the plaintiff below in the present action: the pilotage services had been tendered by him; his claim to the

compensation prescribed by the statute was then perfect, and the liability of the master or owner of the vessel had become fixed."

Certainly in the instant situation the liability of the licensee for unpaid royalties for the use of the patent had become fixed at the time the Royalty Adjustment Act was passed and the Act should, if applied to them, be held invalid as to such application.

In *Ettor v. City of Tacoma*, 228 U. S. 148, the court held the repeal of a statute, which had been construed as giving consequential damages so as to affect rights obtained thereunder, was a deprivation of property without due process of law as guaranteed by the Fourteenth Amendment. The court by Mr. Justice Lurton, at page 156, said:

"The necessary effect of the repealing act, as construed and applied by the court below, was to deprive the plaintiffs in error of any remedy to enforce the fixed liability of the city to make compensation. *This was to deprive the plaintiffs in error of a right which had vested before the repealing act, a right which was in every sense a property right. Nothing remained to be done to complete the plaintiffs' right to compensation except the ascertainment of the amount of damage to their property. The right of the plaintiffs in error was fixed by the law in force when their property was damaged for public purposes, and the right so vested cannot be defeated by subsequent legislation.*"

Forbes Pioneer Boat Line v. Board of Commissioners, 258 U. S. 338, was a case wherein a state legislature had declared by special act that tolls paid by plaintiff had been properly collected after plaintiff had sued for the return to him of such tolls which, at the time of their collection, had been unlawfully exacted. Holding such action on

the part of the legislature unconstitutional under Article I, Section 10, of the Constitution and the due process clause of the Fourteenth Amendment, Mr. Justice Holmes, at page 339, said:

> "Stripped of conciliatory phrases the question is whether a state legislature can take away from a private party a right to recover money that is due when the act is passed. The argument that prevailed below was based on the supposed analogy of *United States v. Heinszen & Co.*, 206 U. S. 370, *(Rafferty v. Smith, Bell & Co.*, 257 U. S. 226), which held that Congress could ratify the collection of a tax that had been made without authority of law. That analogy, however, fails. A tax may be imposed in respect of past benefits, so that if instead of calling it a ratification Congress had purported to impose the tax for the first time the enactment would have been within its power. *Wagner v. Baltimore*, 239 U. S. 207, 216, 217. *Stockdale v. Atlantic Insurance Co.*, 20 Wall. 323. But generally ratification of an act is not good if attempted at a time when the ratifying authority could not lawfully do the act. *Bird v. Brown*, 4 Exch. 786, 799. If we apply that principle this statute is invalid. For if the Legislature of Florida had attempted to make the plaintiff pay in 1919 for passages through the lock of a canal, that took place before 1917, without any promise of reward, there is nothing in the case as it stands to indicate that it could have done so any more effectively than it could have made a man pay a baker for a gratuitous deposit of rolls."

If a state legislature cannot take away from a private party a right to recover money that is due when the act was passed, how can the Congress take away from a private party a right to receive money due when the Act, here concerned, was enacted? We submit that the Congress did not have the power to pass such an act.

William Danzer & Co., Inc., v. Gulf & Ship Island R. R. Co., 268 U. S. 633, was a case wherein the Interstate Commerce Commission attempted to apply retroactively a section of the Transportation Act of 1920 whereby a claimant was permitted to sue three carriers, despite the fact that under the ordinary statute of limitations the claimant's right was barred. The court, holding the statute would not be construed retroactively to create a liability, stated by Mr. Justice Butler at page 637:

> "Section 206(f) will not be construed retroactively to create liability. To give it that effect would be to deprive defendant of its property without due process of law in contravention of the Fifth Amendment. Cf. *Levy v. Wardell*, 258 U. S. 542, 544; *Forbes Boat Line v. Board of Commissioners*, 258 U. S. 338, 340; *Union Pacific R. R. v. Laramie Stock Yards*, 231 U. S. 190, 200, *Winfree v. Northern Pacific Ry. Co.*, 227 U. S. 296, 301."

In *Coombes v. Getz*, 285 U. S. 434, a section of the California Constitution was involved which provided that the directors of corporations should be held liable to creditors for all moneys embezzled or misappropriated by corporate officers. Holding that the repeal of the section, while creditors who contracted with a corporation were suing to enforce their right against a director, could not deprive the creditors of such rights, Mr. Justice Sutherland speaking for the court, at pages 442 and 448, said:

> "The right of this petitioner to enforce respondent's liability had become fully perfected and vested prior to the repeal of the liability provision. His cause of action was not *purely* statutory. It did not arise upon the constitutional rule of law, but upon the contractual liability created in pursuance of the rule. Although

the latter derived its being from the former, it immediately acquired an independent existence competent to survive the destruction of the provision which gave it birth. The repeal put an end to the rule for the future, but it did not and could not destroy or impair the previously vested right of the creditor (which in every sense was a property right, *Ettor v. Tacoma*, 228 U. S. 148, 156; *Pritchard v. Norton*, 106 U. S. 124, 132) to enforce his cause of action upon the contract. *Ettor v. Tacoma, supra; Hawthorne v. Calef*, 2 Wall. 10; *Steamship Co. v. Joliffe*, 2 Wall. 450; *Ochiltree v. Railroad Co.*, 21 *Wall.* 249, 252-253; *Harrison v. Remington Paper Co.*, 140 Fed. 385, 390 et seq.; *Knickerbocker Trust Co. v. Myers*, 133 Fed. 764, 767.

* * * *

"It is settled by decisions of this and other federal courts *(Ettor v. Tacoma*, and cases cited in connection therewith, *supra)* that, upon the facts here disclosed, a contractual obligation arose; and the right to enforce it, having become vested, comes within the protection of both the contract impairment clause in Art. 1, § 10, and the due process of law clause in the Fourteenth Amendment, of the Federal Constitution."

Other cases condemning the retroactive application of a statute are *Koshkonong v. Burton*, 104 U. S. 668, at 678-679; *Ochoa v. Hernandez*, 230 U. S. 139, at 153 et seq.; *Railroad Retirement Board v. Alton Railroad Co.*, 295 U. S. 330, at 349-350, 354; *Asiatic Petroleum Co. v. Insular Collector of Customs*, 297 U. S. 666, at 671. Although retroactivity has been sanctioned to some extent in the field of taxation, even there arbitrary and capricious interference with vested rights has been outlawed. *Nichols v. Coolidge*, 274 U. S. 531; *Blodgett v. Holden*, 275 U. S. 142; *Untermyer v. Anderson*, 276 U. S. 440; *Coolidge v. Long*, 282 U. S. 582; *Levy v. Wardell*, 258 U. S. 542, at 544-545; *Helvering v. Helmholz*, 296 U. S. 93, at 97-98; *White v. Poor*, 296

U. S. 98, at 102. And cf. *Graham v. Goodcell*, 282 U. S. 409, 426, 429.

Though the obligation of contracts clause of the Constitution does not restrict Congressional action, Congress is, as stated by Mr. Justice Sutherland in *Continental Illinois National Bank & Trust Co. v. Chicago, etc. Ry. Co.*, 294 U. S. 648, at 680, "without power to impair the obligation of contracts by laws acting directly and independently to that end." *Cf. Calder v. Bull*, 3 Dall. 386, 388-389; *Perry v. United States*, 294 U. S. 330, 350-351.

We submit that on the authority of the foregoing cases the retroactive features of the Royalty Adjustment Act must be held to render the Act unconstitutional under the Fifth Amendment as a denial of due process of law.

The efforts of the Government by brief and argument heretofore filed in this case serve but to emphasize the flagrantly unconstitutional retroactive features of the Royalty Adjustment Act.

The Government in its brief and argument heretofore presented herein attempted to treat the Royalty Adjustment Act as if it were like "the nose of wax" referred to by Justice Bradley in *White et al v. Dunbar et al*, 119 U. S. 47 at 53. First it attempted to justify the Act as an exercise of the power of eminent domain (G. Br. p. 14-16). Then apparently realizing the "taking" of money to be indefensible as an exercise of eminent domain, it seized upon the utterly bizarre and equally indefensible "new license" theory (G. Br. 23, 34, to 37). This theory it sought to support by referring to the Act of 1910 as amended in 1918 and by relying most heavily upon two irrelevant

cases interpreting the 1910 and 1918 Acts, *Crozier v. Krupp*, 224 U. S. 290 and *Richmond Screw Anchor Co. v. United States*, 275 U .S. 331.[1]

Next it seemed to abandon the idea of the Act authorizing the taking of a new license as a taking under the exercise of the power of eminent domain and like the proverbial drowning man's "grasping at straws" argued the validity of the Act on the ground that Alma's contract rights were "frustrated" by the "appropriation of the subject matter of the contract." (G. Br. 38) citing *Omnia Commercial Co. v. United States*, 261 U. S. 502.[2]

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[1] As we pointed out in our reply brief insofar as the case of *Crozier v. Krupp* offers any support for the Government's "new license" theory, it was distinctly overruled in that respect by *William Cramp & Sons Ship & Engine Building Company v. International Curtis Marine Turbine Company, et al.*, 246 U. S. 28 (Br. p. 2-4). We also showed that Royalty Order No. W-3 completely vitiated the new license theory (Br. p. 4), that the very language of the Royalty Adjustment Act fully demonstrates the fallacy of the new license theory and that the terms of Order No. W-3 belie the new license theory (Br. p. 7-8).

We submit that we fully demonstrated the fallaciousness of the theory of a new and independent license in "Petitioner's Reply Brief" hereinbefore filed in this case. We most respectfully refer to pages 1 to 8, inclusive, of such brief, which are hereby incorporated in the present brief by reference, wherein we show that the taking of a new license is not supported by the 1910 or 1918 Acts, or such cases as *Crozier v. Krupp*, supra, *Richmond Screw & Anchor Co. v. United States*, supra, relied upon by the Government in support of its new license theory.

[2] To speak of retroactive frustation of a completed contract such as this is a perversion of legal reasoning which only seeks to hide the inescapable fact that what is here attempted is nothing more or less than a taking of money. The Government's reliance on this "retroactive frustration" theory upon *Omnia Commercial Co. v. United States, supra*, has already been fully and ably disposed of in the original amici curiae brief (pp. 15-19) and the amici curiae reply brief (pp. 6-10).

How can it possibly be that the "taking" provided for by the Act is at one and the same time the taking of a "new license" and the entirely different, inconsistent, and contradictory—"appropriation of the subject matter of the contract"? The subject matter of the contract in the *Omnia case* was the steel plate which the Government requisitioned. The subject matter of the Alma-Timken contract is the physical objects—the transfer cases. Admittedly the Government did not "take" these physical objects from anyone. It bought them direct from and paid Alma's licensee, Timken, therefor, and as Timken was fully licensed to make, use and sell the transfer cases, the Government had the full right to use those transfer cases because they had passed "without the limit of the monopoly."

Next counsel for the Government, no doubt fully conscious of the grotesquesness resulting from their nose twisting efforts, tried a new twist, for both in brief and argument heretofore filed in this case, they attempted to support the constitutionality of the Royalty Adjustment Act by claiming that the Act is valid as a price fixing or regulation measure (G. Br. 59-73). To support this new twist they relied heavily upon the cases of *Bowles v. Willingham*, 321 U. S. 503, and *Yakus v. United States*, 321 U. S. 414. These cases involved the constitutionality of the Emergency Price Control Act, 56 Stat. 23. In both of these cases the Emergency Price Control Act was held constitutional because the Act laid down definite and specific standards to be followed in the administration of the Act. The situation in the present case, however, is not that which confronted the court with respect to the Emergency Price Control Act. The present case is, however, on all fours with that before this court, in *A. L. A. Schechter Poultry Corp. v. United States*, 295 U. S. 495,

because the Royalty Adjustment Act like the N.R.A. Act does not provide any standards to guide the administrative determination. This court in *Yakus v. United States*, *supra*, pointed out this distinction between the N.R.A. Act considered in the *Schechter case* and the Emergency Price Control Act, in the following language, which is so *apropos* to the situation presented in the instant case:

> "The Act is unlike the National Industrial Recovery Act of June 16, 1933, 48 Stat. 195, c. 90, considered in *A. L. A. Schechter Poultry Corp. v. United States*, 295 U. S. 495, 79 L. ed. 1570, 55 S. Ct. 837, 99 ALR 947, which proclaimed in the broadest terms its purpose 'to rehabilitate industry and to conserve natural resources.' It prescribed no method of attaining that end save by the establishment of codes of fair competition, the nature of whose permissible provisions was left undefined. It provided no standards to which those codes were to conform" (321 U. S. 414 at 424).

There is the furthermost important distinction enunciated by Mr. Justice Douglas in *Bowles v. Willingham*, *supra*, as follows:

> "We are not dealing here with the situation which involves a 'taking' of property."[2]

In *Panama Refining Co. v. Ryan*, 293 U. S. 388, this court, speaking by Chief Justice Hughes, held with respect to the National Industrial Recovery Act:

> "The Congress left the matter to the President without standard or rule, to be dealt with as he pleased" (293 U. S. at 418).

This language applies unqualifiedly to the situation in the instant case. As far as Royalty Adjustment Order No.

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[2] But here we *are* dealing with a situation which involves a "taking" of property, as held by the court below (supra, p. 8).

W-3 is concerned, the matter of decision was left to the opinion of the Chief of Ordnance without standard or rule to be dealt with as he pleased.[4]

The Government in its brief also relied on such cases as *Norman v. Baltimore and Ohio R. R. Co.*, 294 U. S. 240; *Philadelphia, etc. R. R. Co. v. Schubert*, 224 U. S. 603; and *Calhoun v. Massie*, 253 U. S. 170, to sustain its position as to the retrospective application of the Royalty Adjustment Act considered as a regulatory measure. The first of these, which involved the invalidating of the "gold clause" in a private contract, was explained in *Perry v. United States*, 294 U. S. 330, at 350-351, as relating to "the power of the Congress to control or interdict the contracts of private parties when they interfere with the exercise of its constitutional authority." This Federal police power, it was held in the *Perry case*, did not extend so far as to save from unconstitutionality the repudiation of the Government's own contract to pay in gold. The *Perry case* is more in point than the *Norman case* in a situation such as this, where the Government seeks to effect a purely monetary gain at the expense of a private citizen. And it is further to be noted that the "gold clause" resolution did not involve obligations accrued and due before its passage.

In connection with the *Schubert case, supra*, involving a recovery under the Employers' Liability Act despite a pre-existing contract, the Government has apparently overlooked *Winfree v. Northern Pacific Ry.* Co., 227 U. S.

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[4] When counsel for petitioner, at the so-called hearing before the Royalty Adjustment Board, posed the question that if the Board were going to examine into the validity of the patent, should it not be by the presentation of proper evidence, he was told by the Presiding Officer, Major Cockrell.

"It is not proposed that there shall be any argument in this proceeding at all. * * * The opinion of the Chief of Ordnance is that the patent is invalid" (R. 73).

296. There the plaintiff contended that the very Act involved in the *Schubert case* should not be applied retroactively to cover the death of an employee which occurred in an accident prior to the passage of the Act. The court, speaking through Mr. Justice McKenna, held that the Act should not be construed as retrospective, and said, at page 301:

> "Plaintiff, to support his contention that the act of Congress has retroactive operation, presents a very elaborate argument based on the extensive effect which courts have given to remedial statutes, applying them, it is contended, to the past as well as to the future. The Court of Appeals met the argument, as we think it should be met, by saying that statutes that had received such extensive application were 'such as were intended to remedy a mischief, to promote public justice, to correct innocent mistakes, to cure irregularities in judicial proceedings or to give effect to acts and contracts of individuals according to the intention thereof.' It is hardly necessary to say that such statutes are exceptions to the almost universal rule that statutes are addressed to the future, not to the past. They usually constitute a new factor in the affairs and relations of men and should not be held to affect what has happened unless, indeed, explicit words be used or by clear implication that construction be required."

In *Calhoun v. Massie, supra*, this court sustained an Act which, in granting claims against the Government, limited to 20 per cent the fees of attorneys who had before the Act's passage contracted for larger fees. In this case twenty per cent was paid by the Government to plaintiff and eighty per cent to the defendant. Plaintiff brought action in the state court to recover an additional sum amounting to thirty per cent of the claim. Mr. Justice Brandeis, speaking for the court, page 176, said:

> "At the time when the contract was entered into

> there was no legislation general or special which conferred upon Massie any right of recovery even if he should establish to the satisfaction of Congress that his claim was equitable. A statute making an appropriation to pay the claim was thus a condition precedent to liability on the part of Massie to Calhoun; and the thing contracted for was Calhoun's aid in securing its enactment. The aid was to be given by representing Massie before the Court of Claims. But both of the parties knew that, although Calhoun might have success before the Court of Claims, Congress would still be free to refuse both to recognize the claim as an equitable one and to make an appropriation for its payment. They also knew that if it concluded to grant relief, Congress was free to do so upon such conditions as it deemed proper."

And as further basis for the court's opinion, to which four justices dissented, he stated (1) that the contract for fees had contained an implied assent to limitation by Congress, and (2) that objection to the limitation had been waived by acceptance of the allowed 20 per cent. Furthermore, in the *Calhoun case* there was not, as in the instant case, the taking away from a private party of a right to recover an amount that was due when the Act was passed.

In all of these cases on which the court below, as well as the Government heretofore relied to support the position that the retroactive application of the Royalty Adjustment Act is constitutionally valid, not one of them presents a situation where the Government attempted to take private property without just compensation. None of them dealt with a direct and retroactive taking of vested property rights for its own benefit, as does the Royalty Adjustment Act. There is no public policy which requires that the Government be allowed to take private contract rights without compensation; *Perry v. United States, supra,* indicates that a directly contrary policy prevails.

As Mr. Justice Holmes said, speaking for the court in *Pennsylvania Coal Co. v. Mahon*, 260 U. S. 393, at 415: "* * * while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking." It helps the Government's argument not a whit to call the Royalty Adjustment Act a regulatory act, for, if it is, it is a regulation which goes too far, a regulation which is an undeniable taking.

There is no clear, strong and imperative declaration of retroactivity in the Royalty Adjustment Act and therefore the Act should not be construed to cover royalties accrued prior to its passage.

The Royalty Adjustment Act and the application of it to this case by Royalty Adjustment Order No. W-3, allegedly issued pursuant to the authority of the Act, is clearly retrospective. The Government's position that the Act may be validly construed to cover accrued royalties (G. Br. 32-50 and 66-71) is wholly unsound, as we have demonstrated and also in view of the express language of the Act and in view of the failure of the Act to show on its face that Congress intended it to apply retrospectively.

This court in *Shwab v. Doyle*, 258 U. S. 528 at 534, 535 by Justice McKenna stated:

> "The initial admonition is that laws are not to be considered as applying to cases which arose before their passage unless that intention be clearly declared. 1 Kent. Com. 455; *Eidman v. Martinez*, 184 U. S. 578, 46 L. ed. 697, 22 Sup. Ct. Rep. 515; *White v. United States*, 191 U. S. 545, 48 L. ed. 295, 24 Sup. Ct. Rep. 171; *Gould v. Gould*, 245 U. S. 151, 62 L. ed. 211, 38

Sup. Ct. Rep. 53; Story, Const. § 1398. The comment of Story is: 'Retrospective laws, are, indeed, generally unjust; and, as has been forcibly said, neither accord with sound legislation nor with the fundamental principles of the social compact.'

"There is absolute prohibition against them when their purpose is punitive; they then being denominated ex post facto laws. It is the sense of the situation that that which impels prohibition in such case exacts clearness of declaration when burdens are imposed upon completed and remote transactions, or consequences given to them of which there could have been no foresight or contemplation when they were designed and consummated.

"The Act of September 8, 1916, is within the condemnation.

"There is certainly in it no declaration of retroactivity, 'clear, strong, and imperative,' which is the condition expressed in *United States v. Heth*, 3 Cranch, 398, 413, 2 L. ed. 479, 483, also *United States v. Burr*, 159 U. S. 78, 82, 83, 40 L. ed. 82-84, 15 Sup. Ct. Rep. 1002."

In *White v. United States*, 191 U. S. 545 at 552, 48 L. ed. 295, it was said:

"Where it is claimed that a law is to have a retrospective operation, such must be clearly the intention, evidenced in the law and its purposes, or the court will presume that the lawmaking power is acting for the future only, and not for the past; that it is enacting a rule of conduct which shall control the future rights and dealings of men, rather than review and affix new obligations to that which has been done in the past. * * * Retrospective legislation is not favored. Cooley, Const. Lim. 529. Retrospective laws which have been sustained in the courts have ordinarily had the effect to remedy irregularities in legal procedure, assessment of property for taxation, and the like. Cooley, Const. Lim. 530, 531."

As with the Act of September 8, 1916 considered in *Shwab v. Doyle, supra,* so it is with the Royalty Adjustment Act: "There is certainly in it no declaration of retroactivity, 'clear, strong, and imperative'." The language employed in the opening paragraph of the Act plainly implies, if not directs, a prospective operation only of the Act and not a retrospective application of it. The Act states:

> (Sec. 1) "That * * * whenever an invention, whether patented or unpatented, *shall* be manufactured, used, sold, or otherwise disposed of for the United States * * *."

The word "shall" is a simple, common word which clearly denotes and expresses futurity and cannot, we submit, properly be construed as embracing past occurrences.

While it is true Section 7 provides that the Act is applicable to royalties earned, but unpaid, on the date of the notice, the only valid construction that can be given to this section is that it applies to royalties earned *subsequent to the passage of the Act and prior to the date of the notice* but remaining unpaid on the date of the notice. This court has repeatedly ruled that it will not, and may not, give a statute retrospective operation unless it is compelled to do so by language so clear and positive as to leave no room for doubt that it was the intention of the legislature to have the Act operate retrospectively. *United States v. Heth,* 3 Cranch, 399, 413; *Chew Heong v. United States,* 112 U. S. 536, 559; *Cameron v. United States,* 231 U. S. 710, 720; *Shwab v. Doyle, supra; United States v. Magnolia Petroleum Co.,* 276 U. S. 160, 162; *Miller v. United States,* 294 U. S. 435, 439 and *Hassett v. Welch et al,* 303 U. S. 303, 314.

The legislative history of the Act fails to disclose any clear intention to make the Act have retrospective application.

The legislative history of the Royalty Adjustment Act seems clearly to indicate it was the intention of Congress to make the Act prospective rather than retrospective.

The Act as originally introduced contained this provision:

> "Sec. 7. This Act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or material deliverable to the Government *from and after the date of the approval hereof*" Ap. 2, pp. 6 and 7)[5].

Had this provision been allowed to stand, as it should have been, no retrospective application of the Act could have been possible. The proponents of the Act, however, overreached themselves, for the Act was then amended by striking Sec. 7 as originally written and as quoted above and substituting therefor the following:

> "Sec. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the

[5] For the convenience of the court we filed a number of sets of a separately bound volume entitled "Appendix to Petitioner's Brief" and containing the following:

(a) Public Law 768, 77th Congress;

(b) Hearings Before Committee on Patents, 77th Congress on H.R. 7620 (Public Law 768);

(c) Report No. 2602 of House of Representatives Committee on Patents;

(d) Reprint from pages of Congressional Record, Vol. 88, No. 178, pp. 8482 to 8484, inc. Proceedings in Senate, Thursday, October 15, 1942;

(e) Reprint from pages of Congressional Record, Vol. 88, No. 184, pp. 8823 to 8825, inc. Proceedings in House, Thursday, October 22, 1942.

United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this Act. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act" (Ap. 2, pp. 6-7, 9-10).

After the hearings before the House Committee on Patents during which the retrospective nature of the Act was considered and called to the attention of the Committee (Ap. 2, pp. 41, 55, 77), Sec. 7 of the Act was again amended so that "this Act," the last two words of the first sentence of Sec. 7, were stricken and "the notice provided for in Sec. 1 hereof" were inserted in lieu thereof. A similar change was made with respect to the last two words "this Act" in the second sentence of Sec. 7 (Ap. 3, p. 2), thereby putting the phraseology of Sec. 7 of the Act in the form in which it appears (R. 58, 59) in the Act as finally passed.

What could have been the purpose of changing "this Act" to "the effective date of the notice provided for in Sec. 1 hereof," if it were not to eliminate the possibility that the provisions of the Act would be effective prior to its enactment?

We doubt that Congress, in view of the hasty (Ap. 4, pp. 1, 2, Ap. 5, p. 13) consideration given to the Act, realized the full import of the amendments which rendered the Act susceptible of such an iniquitous, retrospective application as was given to it in the instant case. Surely Congress never intended that a patent owner should lose all past, due and accrued royalties where his licensee as here seeks

to welsh on his contract, refuses to pay his debt to his creditor and, while admitting that he has never charged nor paid any of the past due royalties to the Government, urges the Act to escape a judgment rendered against him by a Federal District Court. Yet not only is that the effect given to the Act by the Third Circuit Court of Appeals, but the court permitted the Order to deprive it of its previously acquired jurisdiction to act on the merits of Alma's appeal.

1 (b) The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent Timken-Detroit Axle Company to petitioner for the patented devices manufactured, sold and delivered to the government before the promulgation of the Departmental Royalty Order.

As we have shown supra p. 6, every time Timken made and sold a transfer case dominated by any claim of Alma's patent, Timken received the benefit of making a profit with the right to retain the same because of Alma's waiver of its monopoly under the license contract, and Alma parted with its corresponding right, hence the right to the royalties which became due to Petitioner between the date of the Act and that of the royalty Order were as completely vested in Petitioner as were the royalties due prior to the date of the Act and all that we have stated in this brief in answer to Question 1-a applies equally to these royalties, excepting, of course, the arguments made to show that the Act should not be given retrospective application. The taking of the right to these royalties was, as we have demonstrated, not only the retrospective and direct taking of a vested property right of Alma, but plainly the taking of the right to money and therefore not

a proper exercise of the power of eminent domain. Aside from its retroactively fatal invalidity "the Act as applied" is unconstitutional under the due process clause of the Fifth Amendment in many other respects as we shall show, as well as invalid under the just compensation clause thereof as we shall also demonstrate.

Although Question 1 of the court seems to be directed primarily to the retrospective features of the Act, we feel it to be our duty to direct argument to those other aspects of the Act in which it is unconstitutional under the due process clause of the Fifth Amendment as applied to any and all royalties due from respondent to petitioner. In this connection we direct attention to the fact that the Act is without precedent as an attempt by Congress to abrogate contract rights by direct legislation.

When the departmental Royalty Order No. W-3 was promulgated on July 24, 1943, the judgment of the District Court for the District of Delaware rendered December 2, 1942 in favor of Alma had become final because of Timken's failure to file any appeal therefrom, Alma had perfected its appeal to the Third Circuit Court of Appeals from so much of the District Court's judgment as was unfavorable to it, and the Court of Appeals had therefore acquired full and complete jurisdiction over Alma's appeal.

After Order No. W-3 was issued Timken filed a Motion to Dismiss Alma's appeal in the Third Circuit Court of Appeals urging in support of such motion that the Royalty Adjustment Act and Order No. W-3 issued herein formed a defense to the payment of the royalties by it to Alma, the constitutionality of the law thus being placed squarely before this court *Coffman v. Breeze Corporations, Inc. et al.* 323 U.S. 316.

The Circuit Court of Appeals by its decision herein and particularly by its Order (R. 121) under the terms of which it remanded the case to the District Court

> "with directions to proceed no further therein unless and until it shall appear to the court that a justiciable controversy again exists between the parties, arising out of the facts set forth in the Complaint, except that the court may if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the Complaint as moot."

in effect ruled that Royalty Adjustment Order No. W-3 issued July 28, 1943, by an Administrative Board of the Executive Department not only completely ousted its jurisdiction, which had attached on February 27, 1943 and prevented it from considering the case which was properly before it, but also said Order rendered nugatory that part of the judgment of the District Court, entered December 2, 1942, which had become final because of Timken's failure to appeal therefrom. As Order No. W-3 was clearly not authorized by the Royalty Adjustment Act, the issuance of the Order was just as much a denial of "due process" as if the Act had never been passed.

Order No. W-3 was not issued pursuant to, nor was it authorized by the Royalty Adjustment Act.

The scope of the Royalty Adjustment Act, or the definition of the limitations upon the applicability of the Act, is contained in Sec. 7 thereof (R. 58). That section sets forth the *condition precedent*, or *"the prime requisite,"* which must prevail before there can properly be any application of the Act. This condition precedent is that the "Act shall apply to all royalties directly or indirectly charged or chargeable to the United States," etc.

What are the facts with respect to the royalties owed by Timken to Alma for the patented devices manufactured, sold and delivered to the Government both before the enactment of the Act and before the promulgation of the departmental royalty Order? The record here establishes (beyond a peradventure) that none of the royalties due Alma were ever paid to it by Timken. They were never charged nor are they chargeable to the United States. The Board made no finding as to this most important fact.[6]

In the proceedings before the Royalty Adjustment Board, Timken's counsel, Mr. Strauch, stated with respect to the unpaid royalties on the T-79 Cases.[7]

> "We never agreed that royalties were due—royalties were never charged on them, * * *" (R. 68).

There is also the statement made in the Gallagher affidavit, Ex. B (R. 60) in support of Timken's motion to dismiss in the Third Circuit Court of Appeals, as follows:

> "* * * royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *"

Indeed, Timken could not claim, as it has done throughout this entire litigation, that it does not have to pay the royalties to Alma, and at the same time charge such unpaid royalies to the Government. Consequently, there has been no *claim* made by anyone representing Timken, the Gov-

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[6] The language as used in the first paragraph of Order No. W-3 which said "royalties *are* directly or indirectly charged or chargeable to the War Department" (R. 93) cannot be construed as a "finding" but is obviously merely an incorporation in the Order of the language of Sec. 7 of the Act.

[7] The T-79 Cases are the ones involved in Alma's appeal on the Merits to the Third Circuit Court of Appeals (R. 51-60).

ernment, or the Royalty Adjustment Board, let alone any finding by the latter, that any of the royalties were ever charged, or are now chargeable, to the Government.

Timken, as we have heretofore pointed out, obtained the privilege under the contract of making and selling transfer cases, embodying the invention of the patent, to the Government. It thereby gained the right to make a profit on such cases and, because of the license granted, continued to manufacture and sell said cases without any fear that it could be sued by Alma as an infringer and be compelled to turn over to Alma infringing profits. Timken makes no claim that it did not make any profit on the transfer cases in issue that it made and sold, but in spite of the judgment rendered against it by the District Court, it claims the Act relieves it of paying its debt to Alma, while in the same breath it claims it does not have to pay anything over to the Government. Or, in other words, Timken says the Act applies only to relieve me of paying the money I owe to Alma and as I have not charged any royalty to the Government, I do not have to turn any of this money over to anyone but can keep it all myself.

Could there possibly be a more flagrant example of a law that takes away one man's property and gives it to another? *Osborn v. Nicholson, supra.*

As a matter of law Timken has assumed the full burden to pay Alma the royalties due and cannot properly charge them to the government.

Timken, by its action of refusing to be bound by the license contract and by not charging royalty to the Government, or anyone else, on the large number of transfer

cases it sold and which royalties were held by the District Court should have been paid by Timken to Alma, legally assumed the full and sole obligation for the payment thereof. Timken, in refusing to pay royalty on transfer cases, admitted by its counsel, Mr. Strauch, in the District Court to be ones which were dominated by the claims of the Ruggles and Smith patent (A.A. p. 151a-153a), and by its attempt in the District Court to attack the validity of the patent under which it was licensed, in contravention of the rule of law that a licensee under such condition is estopped to attack the patent's validity, was fully aware of the liability which it assumed.

> "Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think that the defendants are estopped from alleging that invalidity." *Kinsman et al v. Parkhurst*, 18 How. 289, 293.

Timken's conduct was the equivalent of its saying to the Government, "I have assumed the full responsibility for the payment of these royalties. As this is a matter solely between Alma and Timken, Timken is not charging any of these royalties to the Government." In view of Timken's conduct, the following statement of District Judge Kirkpatrick is, we submit, controlling upon the situation before this court:

> "* * * I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here" (R. 36).

Surely it was never the intention of Congress that the Royalty Adjustment Act should be used as it has been in this case to dispose summarily of a purely private contro-

versy between citizens of different states in a pending case arising under Article III, Sec. 2 of the Constitution of the United States. Nor could it possibly have been the Congressional intent that the Act could be used as a defense to the payment of royalties which the record shows were never charged to the Government and as to which Timken, as a matter of law by its conduct, assumed full and complete legal responsibility for payment.

Order No. W-3 was not authorized by, or issued pursuant to the Royalty Adjustment Act, because none of the royalties here in issue were ever charged to the Government by Timken and as Timken had assumed the full responsibility for the payment thereof the use made of the order to relieve Timken was clearly a denial of due process.

Aside from the fact that Order No. W-3 was not authorized by the Act because none of the royalties affected by it were, as we have demonstrated, charged or chargeable to the United States, the Act does not authorize, as we shall show, the issuance of an Order denying all royalty on the ground of alleged invalidity of a patent.

The language and the only language of the Act that authorizes the issuance of an Order under it is:

> "* * * Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, *taking into account the conditions of wartime production*" (R. 56).

The Act clearly and unmistakably sets forth one condition and only one condition to be taken into account by "the head of the department or agency of the Government"

by whom the Order is to be issued and which Order shall "fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just" and that condition is *"conditions of wartime production."*[8]

Surely no argument should be needed to convince this court that increased production as the result of wartime production could not possibly render invalid the Ruggles and Smith patent, the validity of which was so fully recognized by Timken in 1938 when Timken paid $1,500 down to get a license under it and at that time contracted to pay a royalty for the use of the inventions covered by its claims. If these inventions were used more extensively because of wartime conditions, such greater use is highly persuasive of the utility and novelty of the inventions and therefore of validity instead of invalidity of the patent.

The Royalty Adjustment Act as applied to any and all royalties due Alma by Timken is unconstitutional as a delegation to an administrative board of the executive department of the government of a purely judicial prerogative—the right to adjudicate the validity of a duly issued United States Letters Patent.

The grant of Letters Patent arises under the constitutional provision that

> "Congress shall have power * * * to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries" (Art. I, Sec. 8).

[8] War was not declared until December 7, 1941. Certainly the 1939, 1940 and most of the 1941 production was not "wartime" in any sense of the meaning.

The Government has urged that, as Congress has the right to legislate with respect to patents under the above provision of the Constitution, it was within its power to pass the Royalty Adjustment Act. It is to be carefully noted, however, that the power of Congress under the patent clause is a decidedly limited power. In other words, Congress may only legislate under this provision in such a way as to *promote* the progress of science and to *secure the exclusive rights of inventors to their respective discoveries.* We doubt very much that this court could properly hold valid under Article I, Sec. 8 of the Constitution, any Act of Congress which would frankly announce it was its purpose to take away from inventors the right to their discoveries. Yet that is exactly the effect and purpose of the Royalty Adjustment Act.

The Acts of 1910 and 1918 so heavily relied on by the Government as the "prototypes" of the Royalty Adjustment Act, are not the "prototypes" but the very *antitheses* of the Royalty Adjustment Act. Both of these Acts, as clearly pointed out in *Sperry Gyroscope Co. v. Arma Engineering Co.*, 271 U. S. 232, were "to provide additional protection for owners of patents." They gave patent owners a right to sue the Government in the Court of Claims for a tort, a right which did not exist before. In other words, they gave patent owners a right of suit which did not exist under the Tucker Act because there could be no implied contract in the commission of a tort, whereas the sole and only possible intent of the Royalty Adjustment Act is to take away from owners of patents a very substantial part of the protection of the patent law as heretofore uniformly administered. Furthermore the 1910 and 1918 Acts did not interfere with prior existing vested contract rights, as does the Royalty Adjustment Act.

The grant by the United States of a patent is a matter of right and not of grace or favor.

"That the government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser, we have no doubt. The Constitution gives to Congress power 'to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,' which could not be effected if the government had a reserved right to publish such writings or to use such inventions without the consent of the owner. Many inventions relate to subjects which can only be properly used by the government, such as explosive shells, rams, and submarine batteries to be attached to armed vessels. If it could use such inventions without compensation, the inventors could get no return at all for their discoveries and experiments. It has been the general practice, when inventions have been made which are desirable for government use, either for government to purchase them from the inventors, and use them as secrets of the proper department; or, if a patent is granted, to pay the patentee a fair compensation for their use. The United States has no such prerogative as that which is claimed by the sovereigns of England, by which it can reserve to itself, either expressly or by implication, a superior dominion and use in that which it grants by letters-patent to those who entitle themselves to such grants. The government of the United States, as well as the citizen, is subject to the Constitution; and when it grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor." *James v. Campbell*, 104 U. S. 356 at pp. 357-358.

To the same effect are: *Wilson v. Rousseau*, 4 How. 646, 674; *Cammeyer v. Newton*, 94 U. S. 225, 234-235; *Hollister v. Benedict & Burnham Mfg. Co.*, 113 U .S. 59, 67-68; *United States v. Palmer*, 128 U. S. 262, 270-272; *Solomons v. United States*, 137 U. S. 342, 346; *William Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co., et al*, supra.

The granting of a patent has frequently been termed to be the making of a contract between the inventor and the Government by which the inventor is granted the right to enforce his limited monopoly in the constitutional courts of the United States in return for the disclosure of his invention to the public with the unrestricted right of the latter to use the invention upon the expiration of the patent.

> "Rights against the United States arising out of a contract with it are protected by the Fifth Amendment. *United States v. Central Pacific R. Co.*, 118 U. S. 235, 238; *United States v. Northern Pacific Ry. Co.*, 256 U. S. 51, 64, 67. *When the United States enters into contract relations, its rights and duties therein are governed generally by the law applicable to contracts between private individuals.*" *Lynch v. United States*, 292 U. S. 571 at 579.

This court has repeatedly held a patent to be property entitled to the same legal protection as other property.

> *Seymour v. Osborne*, 11 Wall. 516;
> *Cammeyer v. Newton*, supra;
> *United States v. Palmer*, supra.

On the question as to whether or not an executive branch of the Government has the power under the Constitution

to declare a duly issued United States Letters Patent invalid, this court said:

> "* * * that when a patent has received the signature of the Secretary of Interior, countersigned by the Commissioner of Patents, and has had fixed to it the seal of the Patent Office * * * it is not subject to be revoked or canceled by the President or any other officer of the Government * * *."
>
> "The only authority competent to set a patent aside or to annul it or to correct it for any reason whatever is vested in the courts of the United States * * *." *McCormick Harvesting Machine Co. v. Aultman-Miller Co.*, 169 U. S. 606 at 608, 609.

Likewise it held recently in *Hartford Empire Co. v. United States*, 323 U. S. 386 at 415:

> "That a patent is property, protected against appropriation both by individuals and by Government, has long been settled."

It would be but a mere subterfuge bordering on chicanery to argue that the Royalty Adjustment Board by its Order No. W-3 in this case did not declare the Ruggles and Smith patent invalid. The real facts are clearly revealed that the Board's issuance of the said Order—holding a fair and just royalty to be zero—was predicated entirely upon "the opinion of the Chief of Ordnance is that the patent is invalid" (R. 73). There is absolutely no evidence in the record to indicate upon what the opinion of the Chief of Ordnance is predicated and therefore Alma has never had any opportun y to contest the correctness of this opinion. Therefore, the action and Order of the Board annulled the patent insofar as the Government of the United States is concerned.

> "One of the first objectives and essentials of good Government is order and certainty in relations be-

> tween Government and citizen. This cannot be secured if the Government itself is not to be depended upon to abide its grants, even if they have been improvidently or erroneously made." *United States v. U. S. Gypsum Co.*, 53 F. Supp. 889 at 899-900.

Indeed, this court has held that the rule of estoppel against a licensee attacking the validity of a patent under which he is licensed applies as fully to the United States as it does to a private citizen, *United States v. Harvey Steel Co.*, 196 U. S. 310.

While it might be urged that an Order issued by a Royalty Adjustment Board is not a final determination of facts upon which the enforcement of the constitutional rights of the citizen depends because of the right (?) given by the Act to sue the Government, a *different party*, in the Court of Claims, the mere issuance of an Order makes the Order a finality with respect to a licensor's rights to pursue a cause of action against his licensee as the Act as applied in this case demonstrates. Alma cannot under the Act sue in the Court of Claims for satisfaction of the judgment rendered by the District Court as to the royalties due to it by Timken, nor can it even ask that the judgment of the District Court that Timken is estopped to contest the validity of the Ruggles and Smith patent be enforced. The mere issuance of the Order was a finality as to that. Neither can it ask the Court of Claims to direct the Third Circuit Court of Appeals to hear the merits of its appeal, as the Court of Claims clearly has no jurisdiction over any Federal Court. Therefore, the mere issuance of an Order, without more, becomes a final determination, acting in any case, and particularly as the Act was applied in this case, to prevent Alma from enforcing its constitutional rights against Timken.

Question 1 of the court, as we have shown, is directed to the constitutionality of the act under the due process clause of the 5th Amendment. With respect to Question 1a we have demonstrated that the act is clearly unconstitutional under the Amendment as applied to royalties due before the passage of the Act, and we have also demonstrated by the foregoing that the Act is also unconstitutional under the due process clause as applied to any and all royalties under Question 1b.

2. Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a District Court, does not save to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, the Timken-Detroit Axle Company.

We must consider what Alma's rights were prior to the issuance of "any order" as referred to in Sec. 2 of the Act and specifically Order No. W-3 issued July 28, 1943. These rights are as follows:

1. Under Alma's contract of May 16, 1938 with Timken, the right to collect the royalty provided for in the contract for every transfer case made and sold by Timken dominated by any claim of the Ruggles and Smith patent.

2. Alma's right to enforce collection of such royalty by an action in a Federal District Court against Timken wherein the existing rule of law, which estops a licensee under a patent to deny its validity, would be enforced.